



Renaissance Energy Ltd.

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ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders of Renaissance Energy Ltd. will be held at 2:30 p.m. (Calgary time) on May 6, 1998 in the Britannia Room of the Westin Hotel, Fourth Avenue and Third Street S.W., Calgary, Alberta. Shareholders are encouraged to attend, and those unable to do so should complete the Form of Proxy and forward it at their earliest convenience.

Copies of the Information Circular – Proxy Statement, the Annual Information Form and additional copies of this 1997 Annual Report may be obtained from the Secretary of the Company at Suite 3000, 425 First Street S.W., Calgary, Alberta, T2P 3L8; Telephone (403) 750-1400, Facsimile (403) 750-1368.

FUTURE PRESS RELEASE DATES

1998 First Quarter — May 7, 1998

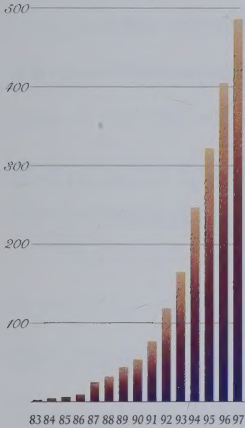
1998 Second Quarter — August 14, 1998

1998 Third Quarter — October 29, 1998

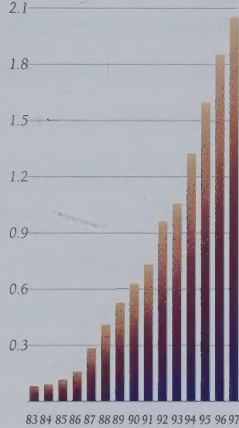
1998 Fourth Quarter — February 26, 1999



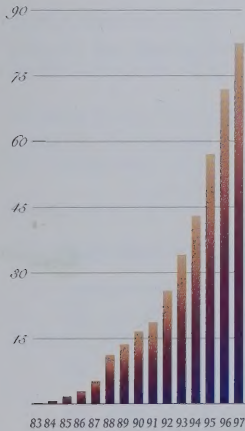
Oil Reserves
Millions of Barrels



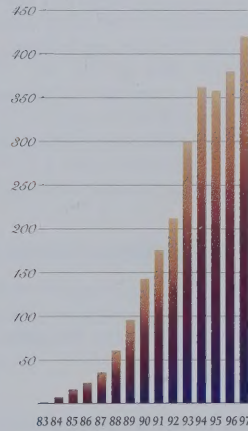
Natural Gas Reserves
Trillions of Cubic Feet



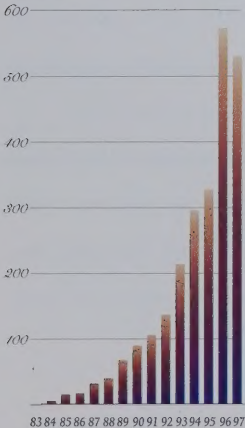
Average Daily Oil Production
Thousands of Barrels



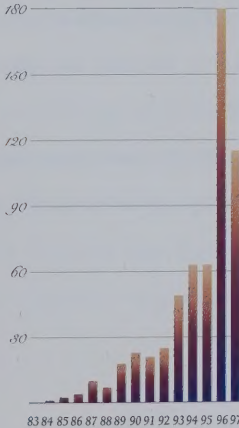
Average Daily Natural Gas Production
Millions of Cubic Feet



Cash Flow
Millions of Dollars



Net Income
Millions of Dollars



1997 was a milestone year for Renaissance Energy — we celebrated our 15th anniversary as a publicly traded, independent Canadian oil and natural gas explorer and producer.

A strategically-sound, long-term business plan has guided us through these 15 years to our current standing in the vanguard of the Canadian energy industry. Our strategy remains essentially unchanged from our days as a junior company: growth through focused and controlled exploration and development while maximizing long-term profitability and returns to shareholders through low-cost volume growth and realizing the best possible commodity prices.

We are proud of the achievements of both 1997 and the past 15 years and look forward to another 15 years of growth.

Letter To Our Shareholders

Renaissance Energy celebrated its fifteenth anniversary as a publicly traded exploration and production company in 1997. Through this period, we have grown from a faltering junior firm to become a significant player in Canada's oilpatch. Renaissance has been fortunate in realizing many accomplishments over the past fifteen years. These include:

- 🔥 drilling 9,500 net wells and expending \$4.8 billion with an average finding and development cost of \$6.04 per proven barrel of oil equivalent reserve additions;
- 🔥 adding 512 million barrels of proven crude oil reserves;
- 🔥 adding 2.7 trillion cubic feet of proven natural gas reserves;
- 🔥 producing 141 million barrels of crude oil for a compound annual growth rate of 51%;
- 🔥 producing 947 billion cubic feet of natural gas for a 50% compound annual growth rate;
- 🔥 generating \$2.5 billion of cash flow at a 79% compound annual growth rate; and
- 🔥 earning \$580 million with a 61% compound annual growth rate.

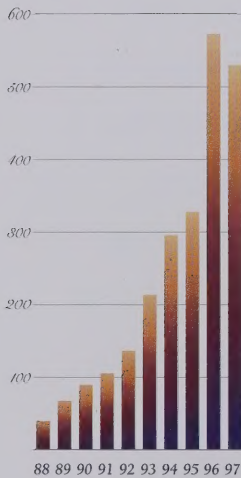
Significantly, we have achieved these results from our exploration, development and property acquisition programs without the benefit of any corporate acquisitions.

We experienced many opportunities and challenges during this 15 year period - a time in which the face of the Canadian oil and natural gas industry changed considerably:

- 🔥 the source of reserve and production additions changed from large scale exploration prospects to smaller plays characterized by an accelerated exploitation strategy;
- 🔥 independent energy companies emerged as the dominant force in Western Canada as the majors reduced conventional activity;
- 🔥 energy pricing was deregulated and North American markets opened up;
- 🔥 energy prices collapsed in the mid-1980's, setting off a decade-long period of substantial volatility in oil and natural gas realizations; and
- 🔥 it became increasingly necessary to maintain low costs while striving to increase reserve and production volumes.

Our successes have outnumbered our failures and have positioned Renaissance to continue to prosper through the inevitable future cycles that our industry will face.

Cash Flow
Millions of Dollars



What happened to Renaissance in 1997?

Despite our 15 year track record of success, 1997 was a year in which we were asked several times, "What happened to Renaissance?" Now that we have submitted our report card, our answer is that 1997 was a successful year for Renaissance but also a very challenging one. While we did encounter several difficulties that are addressed below, we will first focus on the positive accomplishments of the year.

Renaissance was very active operationally in 1997, seeking to find the best opportunities in an industry environment where profit margins narrowed considerably due to the double-edged sword of declining oil and natural gas prices and rising industry costs. Our achievements were many; however, they can be summarized best by the two most critical performance measures in our business — growing reserve volumes to more than offset production, and achieving low finding and development costs. Renaissance added 144 million barrels of oil equivalent proven reserves in 1997, marking the best performance in our history. In doing so, we replaced production three times. On the finding and development cost front, we recorded very a respectable unit rate of \$6.57 per proven barrel of oil equivalent. This cost is within our historical average and was achieved in a very competitive environment in 1997 that saw our industry's costs escalate rapidly.

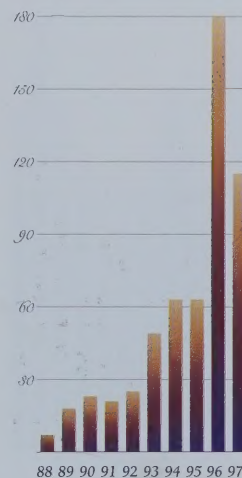
What were Renaissance's most difficult issues in 1997? In summary, they were:

- 🌿 decelerating growth in production volumes;
- 🌿 rising industry costs;
- 🌿 tight labour markets; and
- 🌿 excessive capital market expectations.

Management recognized these issues and responded with actions it considered appropriate for the long-term health of the company.

Clearly, we struggled to achieve our initial production estimates set in late 1996. While we added considerable new production volumes in 1997, we were disappointed at the rate at which these translated into higher sustained averages, particularly from our oil program. The reasons were numerous, but the most important were higher rates of natural reservoir decline than our historical averages, and a lack of pressure maintenance schemes to help move oil to surface. Much

Net Income
Millions of Dollars



Letter To Our Shareholders

of the higher decline rate was attributable to the tremendous success we achieved over the last half of 1996. During this period, our oil production increased by approximately 20,000 barrels per day, which naturally incurred the greatest decline rates immediately thereafter. On the pressure maintenance front, we adjusted our operations to identify the necessity of installing waterfloods at an earlier stage. By the fourth quarter of 1997, oil production had resumed a growth path.

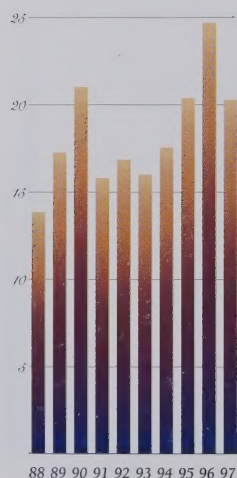
Our industry engaged in a paradox in 1997 - it increased activity levels substantially from the already high standards of 1996 in the face of deteriorating commodity prices. This paradox was rendered possible by the substantial capital infusion into the business in 1996 and the subsequent drive to match investors' expectations. Industry's drilling efforts resulted in 16,000 wells, exceeding the previous record by one-third. This competitive environment led to sharply escalating costs and a decline in the quality of services rendered. Renaissance was not immune to these forces. However, we did benefit from the large scale and continuity of our expenditure programs, which mitigated the increase in costs and ensured that we were receiving the best quality services available.

Another inevitable outcome of the heightened competitive environment was a tight labour market. Experienced professionals - particularly geologists, geophysicists, and engineers - were very much in demand. Historically, Renaissance experienced virtually no turnover in its professional ranks. Nevertheless, in 1997, a few professionals, including several long-term employees, left the firm to fulfill their personal aspirations. While we regretted the loss of these individuals, we were delighted at our success in both replacing them and augmenting our staff complement.

In 1996, our industry realized the highest levels for oil and natural gas prices since the relative collapse of energy prices in the mid-1980's. This resulted in considerable interest in our sector from the capital markets, with most companies gaining ready access to both equity and debt funding. Investor interest continued into 1997 as the oil and natural gas index of the Toronto Stock Exchange reached an all-time peak in October. We believed then that the expectations of the capital markets were excessive in the prevailing environment of declining price realizations and rising costs. The inevitable result of these conditions was the swift and sizable correction in equity prices that occurred during the fourth quarter of 1997 and early in 1998.

Renaissance's common share price declined throughout 1997 in recognition that our performance could not match our exceptional achievements of the prior year. In hindsight, perhaps we did not do an adequate job of conditioning investors' expectations. However, to put our performance in perspective, we did achieve the following:

Average Oil Prices
Dollars per Barrel



- 🔥 increased oil production by 15%;
- 🔥 increased natural gas production by 11%;
- 🔥 increased proven oil reserves by 23%, replacing production three times;
- 🔥 increased proven natural gas reserves by 19%, replacing production three times;
- 🔥 maintained our finding and development costs well within industry standards;
- 🔥 limited the upward pressure on operating costs;
- 🔥 maintained our relatively low-cost overhead structure; and
- 🔥 decreased our debt servicing costs.

These achievements were realized through our exploration and development efforts and without the benefit of major corporate or reserve acquisitions.

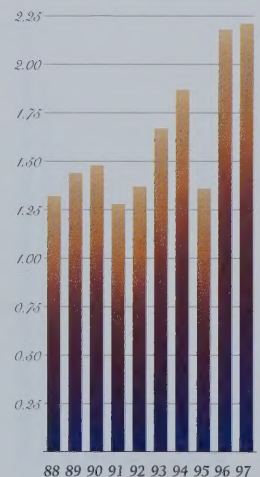
Cash flow and earnings both declined in 1997, principally due to the 18% decline in our oil price realizations. On balance, Renaissance's performance in 1997 was reasonable in light of the industry environment that we faced. We are proud of our accomplishments.

What is the current state of the Canadian energy industry?

Unquestionably, our industry has some difficult issues to address in 1998. Crude oil price realizations are at a 10 year low and the timing of any recovery remains uncertain. This is particularly true for the heavier grades of crude oil, which have been negatively impacted by widening price differentials. The widening is due to a supply and demand imbalance in North America brought on by increased Canadian and foreign supply and the lack of significant additions to heavy oil refining capacity. The resulting impact on cash flows and profitability for the first two months of 1998 has been dramatic. Producers have already shut in some oil production in response. Capital expenditure programs are being revised downwards as all three of the industry's traditional funding sources - cash flow, new equity issues and new debt issues - have either been substantially reduced or virtually eliminated.

A bright light on the horizon is the outlook for Canadian natural gas prices. For several years, Canadian production has been effectively capped by the lack of available pipeline capacity to transport additional natural gas volumes. This situation will turn around by late this year with further expansions to the TransCanada PipeLine and Northern Border systems. The proposed Alliance system, which is now expected to be operational in 2000, will provide additional capacity. The result of this new capacity will be the end of the made-in-Alberta discount for spot nat-

Average Natural Gas Prices
Dollars per Thousand Cubic Feet



Letter To Our Shareholders

ural gas prices and the realization of a true North American market in which price differentials are largely related to the differences in transportation costs. In turn, the outlook for U.S. natural gas prices is favourable, with demand increasing and existing productive capacity declining at a steep rate. Current natural gas prices are already giving an early signal that the consuming markets recognize that higher prices will be required to ensure supply meets demand.

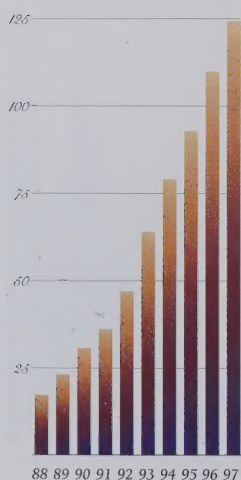
What can you expect from Renaissance in 1998?

Renaissance's approach to the current business environment draws on our historical experience. We believe that a number of excellent growth opportunities will surface this year and will be transacted at far more reasonable costs than have prevailed over the last few years. Capital will be a scarce commodity in 1998 as our primary source, cash flow, has been severely impacted by the decline in oil prices. Consequently, we are being very cautious with our capital expenditure commitments and have established a budget for our ongoing exploration and development activities of \$600 million. We have deferred much of our oil development program until the economics of this side of our business improve. We remain committed to our aggressive natural gas program - a stance that we have maintained for many years. There are very long lead times in the natural gas exploration and development cycle and we believe that our sustained efforts will position us very well for the future.

Our budget factors in only a nominal amount for property acquisitions. Historically, we have expended approximately 15% of our capital expenditure budgets concluding various property acquisitions, the two largest of which were for \$45 million in 1994 and \$35 million in late 1997. It is our view that sizable property acquisition opportunities will be available at low costs in 1998 and Renaissance will aggressively pursue those which will add long-term value. We have substantial credit capacity available and are prepared to use other sources to fund acquisitions.

Over the first two months of 1998, oil production has averaged 81,750 barrels per day, down from the 86,000 barrels per day averaged in the fourth quarter. We have both curtailed low margin production and postponed some development activities that are normally scheduled to offset natural reservoir decline. Natural gas production has approximated 430 million cubic feet per day compared to 416 million cubic feet per day averaged in the fourth quarter. Volumes are anticipated to escalate as we complete our winter drilling and tie-in programs.

Average Daily
BOE Production
Thousands of BOE

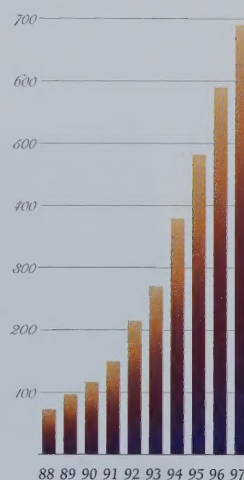


On the pricing front, the benchmark West Texas Intermediate (WTI) oil price to date has averaged US\$16.40 per barrel versus a 1997 fourth quarter average of US\$19.92. Furthermore, the differential between the posted Edmonton light crude oil price and the Hardisty medium price has expanded to approximately Cdn.\$8.20 per barrel. This is the highest differential since 1991 and is particularly significant to Renaissance as our average price is slightly less than that of the Hardisty benchmark. A weak Canadian dollar is providing some protection. The result of these market forces, all of which are well beyond our control, is an average Renaissance realization of Cdn.\$13.60 per barrel over the first 60 days of the year versus the previous quarter's average of Cdn.\$18.65.

Natural gas prices are an entirely different story. Our average realization so far this year is \$2.55 per thousand cubic feet, which includes approximately \$0.40 of hedging gains. This compares to the 1997 fourth quarter average of \$2.70 per thousand cubic feet with no hedging gains. While the average price to date in 1998 is down from the relatively high levels of late 1997, it is still very attractive in the face of the warm weather experienced in North America this winter.

This is a very difficult year in which to make predictions. Renaissance believes that both oil and natural gas prices will provide reasonable returns over the long-term cycle of our business. We expect economic fundamentals will dictate a return to higher oil prices within the longer-term historical average range. The heavy oil price differential should improve as additional refining capacity investments, several of which are underway, are completed. As well, the outlook for natural gas is positive as we see the forces of supply and demand moving towards a better balance in North America. Renaissance has adopted a very flexible approach for 1998 as we believe the current environment will yield some excellent growth opportunities that we will be fully prepared to pursue.

BOC Reserves
Millions of BOE



Clayton H. Woitas
President and
Chief Executive Officer

Calgary, Alberta

Sheldon B. Steeves
Executive Vice President and
Chief Operating Officer

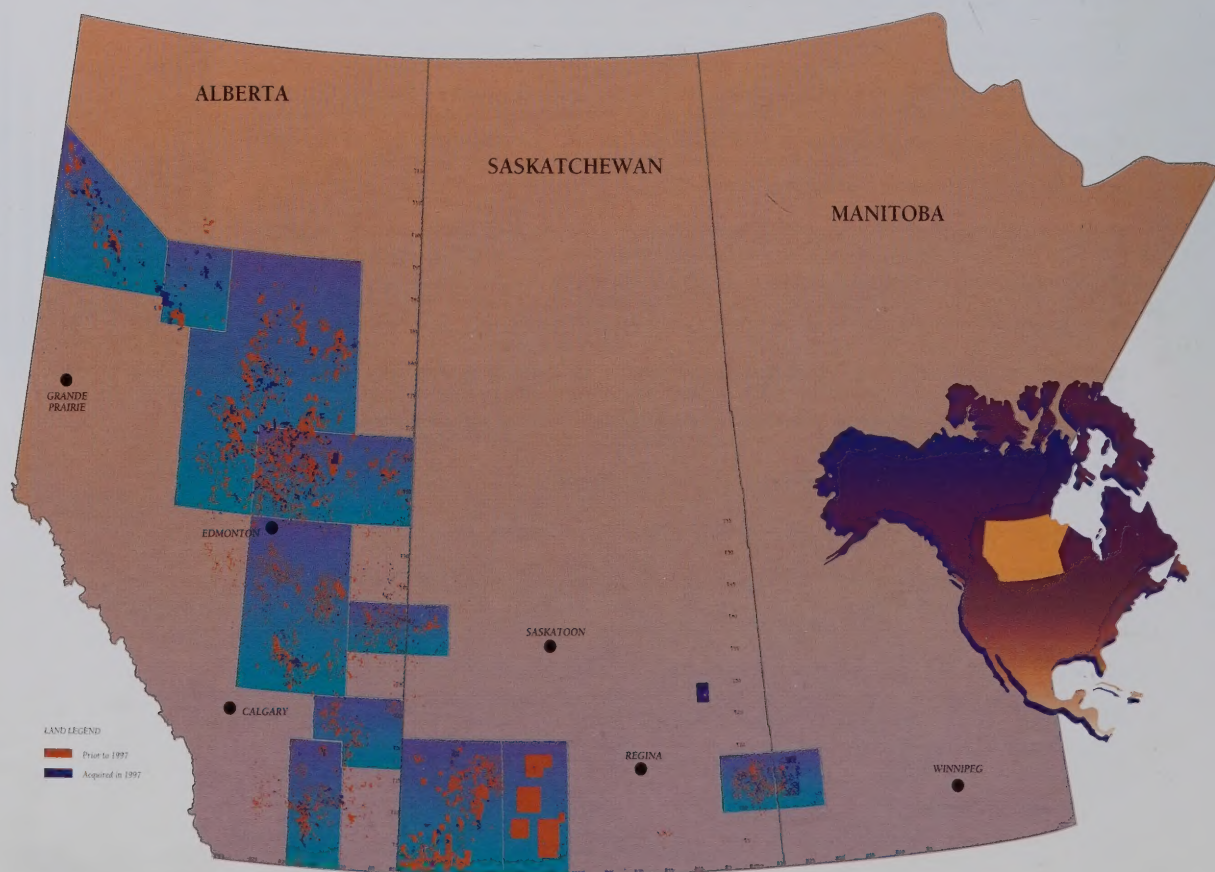
March 9, 1998

Review of Operations

Renaissance conducts its operations exclusively in the Western Canadian Sedimentary Basin, which covers more than 500,000 square miles and provides significant exploration potential in both known productive shallow horizons and largely unexplored deeper horizons.

The Provincial governments (the Crown) own approximately 80% of the mineral rights, with the remaining 20% being held by freehold owners. Substantial mineral rights remain to be leased and evaluated. This land tenure system permits the acquisition of large tracts at relatively low cost.

The economic rents charged through the royalty system and indirect taxes in both Alberta and Saskatchewan are amongst the lowest in the world. Canada's proximity to the United States assures a ready market for its production.



UNDEVELOPED LAND

Renaissance follows a counter-cyclical approach to asset acquisition as our industry tends to react to short-term commodity price fluctuations in its investment programs. We therefore concentrate on the inexpensive opportunities within the basin and avoid those areas where competition is overheated. By assembling large tracts of contiguous land at low relative cost, Renaissance minimizes the effects of competition with ensuing exploration success.

In 1997, the Canadian energy sector spent a record \$1.5 billion at Crown lease sales, an increase of 51% over 1996. Renaissance accounted for 3%, or \$46 million, of the total spent while acquiring 5% of all the acreage purchased.

NET UNDEVELOPED LAND HOLDINGS (thousands of acres)

Year ended December 31	1997	1996	1995
Alberta	6,966	6,963	5,683
Saskatchewan	3,630	3,539	3,413
Manitoba	163	61	—
Total	10,759	10,563	9,096
Average working interest	98%	98%	98%
Average Renaissance cost per acre of Crown			
land purchased during the year	\$ 58.45	\$ 40.19	\$ 32.75
Average industry cost per acre of Crown			
land purchased during the year	\$ 88.64	\$ 65.45	\$ 60.71

Renaissance's inventory of undeveloped land increased 2% during 1997, consolidating existing interests and establishing adjacent positions in core areas.

Undeveloped Land
Millions of Net Acres



DRILLING

Renaissance relies extensively on experience and the use of seismic to assist in land purchases and the selection of drilling locations. Our active drilling program provides a continual report card on our asset base.

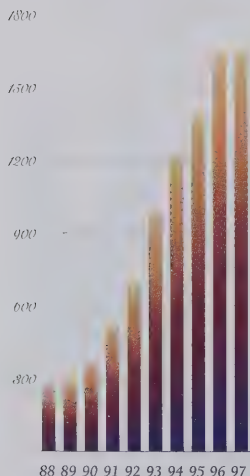
In 1997, Canadian energy industry spending reached record levels for seismic, drilling, and related services. All elements of the service sector were essentially working at full capacity, resulting in an escalation in costs as well as some erosion in the quality of services rendered.

Solid relationships established with many members of the service sector through ongoing high activity levels enabled Renaissance to enjoy some price and quality of service advantages. The technological advances of recent years have also significantly improved the cost effectiveness of all aspects of our business.

NET WELLS DRILLED (number of wells)

Year Ended December 31	1997	1996	1995
Oil	788	690	585
Natural gas	385	399	269
Dry	472	551	534
Total	1,645	1,640	1,388
Exploratory	906	895	815
Development	739	745	573
Alberta	1,265	1,378	1,222
Saskatchewan	363	262	166
Manitoba	17	—	—
Average working interest	97%	97%	98%

Drilling Activity
Number of Net Wells Drilled



RESERVES AND FUTURE NET REVENUES

Renaissance's reserves of oil (inclusive of natural gas liquids) and natural gas have been reported as at December 31, 1997 by Sproule Associates Limited ("Sproule") in a report dated February 18, 1998. Sproule evaluated in detail 60% of our oil reserves and 70% of our natural gas reserves. Renaissance engineers evaluated in detail the balance of the reserves. Approximately half of the internal evaluation was subject to further review by Sproule.

The evaluations of future net production revenues are stated net of royalties, operating costs and future development costs and prior to any provision for income taxes, overhead and interest costs. It should not be assumed that the discounted value of estimated future net production revenues is representative of the fair market value of the estimated oil and natural gas reserves. The following pages summarize the report and the Sproule reports of previous years.

Summary

	Reserves		Discounted Value of Estimated		
	Natural		Future Net Revenues		
	Oil	Gas	(millions)		
	(mmbbls)	(bcf)	0%	10%	15%
Proven producing	206	725	\$ 4,139	\$ 2,624	\$ 2,240
Proven non-producing	166	1,071	3,864	1,810	1,360
Total proven	372	1,796	8,003	4,434	3,600
Probable	114	245	1,122	494	369
December 31, 1997	486	2,041	\$ 9,125	\$ 4,928	\$ 3,969
December 31, 1996	405	1,851	\$ 8,862	\$ 5,052	\$ 4,124
December 31, 1995	322	1,597	\$ 6,408	\$ 3,728	\$ 3,053

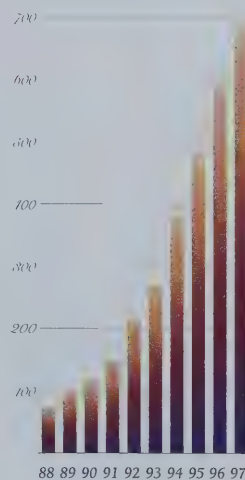
Reserve volumes are before the deduction of royalty interests. Probable reserve values were reduced by 50% to allow for risk; probable reserve volumes were not reduced. Future net production revenues at December 31, 1996 and 1995 were based upon separate price forecasts utilized by Sproule in their reports for the respective years.

Price Forecasts

The estimate of future net production revenues at December 31, 1997 is based upon the following price forecast utilized by Sproule in its report:

	Oil		Natural Gas	
	WTI at Cushing, Oklahoma	Light Crude at Edmonton	At Henry Hub, Louisiana	TCGSL Average Field Price
	\$ US/bbl	\$ Cdn/bbl	\$ US/mcf	\$ Cdn/mcf
1998	\$ 20.52	\$ 27.23	\$ 2.19	\$ 1.79
1999	\$ 21.06	\$ 27.69	\$ 2.08	\$ 1.92
2000	\$ 21.61	\$ 28.43	\$ 2.12	\$ 2.02
2001	\$ 22.17	\$ 29.19	\$ 2.19	\$ 2.09
2002	\$ 22.75	\$ 29.97	\$ 2.26	\$ 2.18
Thereafter	+ 3%/yr	+ 3%/yr	+ 2%/yr	+ 2%/yr

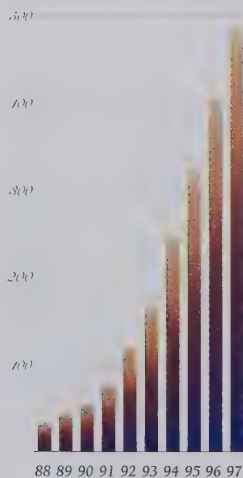
BOE Reserves
Millions of BOE



The oil price forecast is based upon the benchmark price of West Texas Intermediate (WTI) crude oil delivered at Cushing, Oklahoma. This forecast is adjusted for transportation and quality differentials and translated to Canadian dollars at US\$1 = Cdn.\$1.37 (US\$0.73 = Cdn.\$1.00) to reflect Edmonton refinery postings for 40°API and 0.4% sulphur content crude oil. The natural gas price forecast is based upon the benchmark price for deliveries at Henry Hub, Louisiana and on forecast realizations for the industry pool of production contracted to TransCanada Gas Services Limited (TCGSL), a wholly owned subsidiary of TransCanada Pipelines Limited.

The foregoing benchmark prices have been adjusted to recognize the quality, contractual, and transportation rights specific to Renaissance in calculating the estimate of future net revenues.

Oil Reserves
Millions of Barrels



Analysis of Reserves

OIL RESERVES (*before royalties*) (millions of barrels)

December 31	1997	1996	1995
Proven producing	206	160	126
Proven non-producing	166	143	126
Probable	114	102	70
Total	486	405	322
Reserve life index (years)*	15.5	13.3	14.3

* based upon annualized fourth quarter production

NATURAL GAS RESERVES (*before royalties*) (billions of cubic feet)

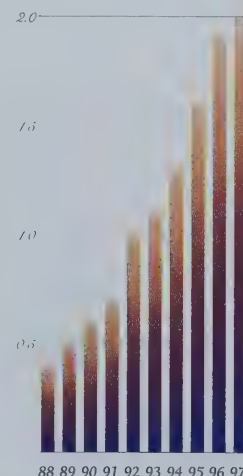
December 31	1997	1996	1995
Proven producing	725	629	593
Proven non-producing	1,071	875	747
Probable	245	347	257
Total	2,041	1,851	1,597
Reserve life index (years)*	13.4	14.1	11.8

* based upon annualized fourth quarter production

Reserve Reconciliation

	Oil (mmbbls)			Natural Gas (bcf)		
	Proven	Probable	Total	Proven	Probable	Total
December 31, 1994	196	51	247	1,120	205	1,325
Discoveries & extensions	57	13	70	354	53	407
Purchases	11	3	14	26	6	32
Production	(21)	—	(21)	(131)	—	(131)
Revisions of prior estimates	9	3	12	(29)	(7)	(36)
December 31, 1995	252	70	322	1,340	257	1,597
Discoveries & extensions	56	18	74	390	116	506
Purchases	21	13	34	9	5	14
Production	(26)	—	(26)	(139)	—	(139)
Revisions of prior estimates	—	1	1	(96)	(31)	(127)
December 31, 1996	303	102	405	1,504	347	1,851
Discoveries & extensions	66	8	74	311	93	404
Purchases	12	4	16	30	5	35
Production	(30)	—	(30)	(153)	—	(153)
Revisions of prior estimates	21	—	21	104	(200)	(96)
December 31, 1997	372	114	486	1,796	245	2,041

Natural Gas Reserves
Trillions of Cubic Feet



We added 90 million barrels of oil to our proven and probable reserve base, before revisions, replacing production three-fold. More than three-quarters of the additions resulted from our on-going exploration and exploitation efforts while property acquisitions accounted for the balance of the incremental oil reserves.

On the natural gas front, Renaissance added 439 billion cubic feet of proven and probable reserves, before revisions, also replacing the year's production three times. Illustrating the success of our natural gas program, 92% of the reserve additions were a result of our exploration and development programs.

FINDING AND DEVELOPMENT COSTS

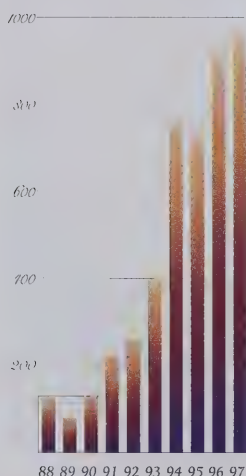
Low finding and development costs are key to ensuring our profitability. Having already accumulated a large and highly prospective asset base to protect ourselves from higher land prices, we made a significant shift in our capital allocation priorities in 1997. Our focus turned to translating the significant levels of front-end investment in our new regions over the prior three year period into reserve and production volume growth.

Capital Expenditures

Capital expenditures in 1997 concentrated on:

- 🌿 opportunities to augment and consolidate our interests in core areas;
- 🌿 drilling a high number of wells to evaluate the potential of new regions in which we established a presence over the last few years and to develop existing reserves of crude oil and natural gas to increase production volumes;
- 🌿 installing extensive pipeline and production facility infrastructure in the Hotchkiss and Athabasca North regions to facilitate more timely tie-ins during the winter drilling season; and
- 🌿 installing production facilities in other regions to increase production volumes and minimize operating costs.

Capital Expenditures
Millions of Dollars



CAPITAL EXPENDITURES (millions)

Year ended December 31	1997	1996	1995
Finding and development costs			
Property acquisitions	\$ 125	\$ 109	\$ 99
Lease acquisitions and retentions	66	107	81
Seismic evaluations	65	86	69
Drilling and completion of wells	448	372	324
Equipping, pipelining and facilities	231	222	141
Site restoration expenditures	7	8	8
Total finding and development costs	942	904	722
Head office expenditures	7	9	5
Total expenditures	\$ 949	\$ 913	\$ 727

Annual Finding and Development Costs

The following table presents the calculations of our annual finding and development costs. These calculations are based upon actual costs incurred and do not recognize the future development costs associated with bringing proven non-producing and probable reserves on-stream.

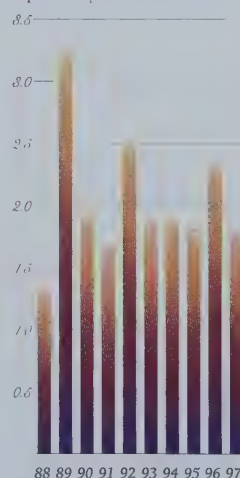
ANNUAL FINDING AND DEVELOPMENT COSTS

Year ended December 31	1997	1996	1995
Total capitalized costs (millions)	\$ 942	\$ 904	\$ 722
Proven reserve additions (mmboe)	144	108	112
Average cost per BOE	\$ 6.57	\$ 8.40	\$ 6.45
Proven and 50% of probable reserve additions (mmboe)	146	128	124
Average cost per BOE	\$ 6.52	\$ 7.06	\$ 5.82
Proven and probable reserve additions (mmboe)	146	149	136
Average cost per BOE	\$ 6.48	\$ 6.09	\$ 5.31

Recycle Ratio *

Times

* Cash flow per BOE + annual finding and development costs based upon proven and probable reserve additions



Cumulative Finding and Development Costs

In calculating finding and development costs, there are a number of inconsistencies between periods, resulting from the timing of expenditures and recognition of reserves. Accordingly, we have calculated costs and reserve additions over the preceding three and five year periods as follows:

CUMULATIVE FINDING AND DEVELOPMENT COSTS

	1995-1997	1993-1997
Total capitalized costs (millions)	\$ 2,568	\$ 3,709
Proven reserve additions (mmboe)	363	561
Average cost per BOE	\$ 7.08	\$ 6.61
Proven and 50% of probable reserve additions (mmboe)	397	604
Average cost per BOE	\$ 6.48	\$ 6.14
Proven and probable reserve additions (mmboe)	430	647
Average cost per BOE	\$ 5.97	\$ 5.74

REGIONAL REVIEW

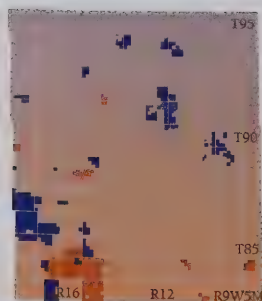
Renaissance's inventory of undeveloped land is concentrated in specific operating regions of the Western Canadian Sedimentary Basin, with a balanced portfolio of short and long-term reserves and production growth potential.

Within these operating regions, we maintain:

- ✦ 100% ownership of our prospects whenever possible for optimal control in decision-making and to maximize the rewards for success;
- ✦ programs to exploit our reserves efficiently through constant attention to productive capacity and the use of relevant production technology; and
- ✦ a very substantial and environmentally-sensitive production infrastructure, which we are constantly expanding and upgrading to maximize efficiencies.

Sawn Lake — PROPERTY HIGHLIGHTS

- ✦ Position was established late in 1996 by purchasing a light oil producing property;
- ✦ Primary targets are the deep Slave Point and Granite Wash formations containing 39⁰ API oil. The wells in these reservoirs typically produce in excess of 100 bopd with gradual decline rates;
- ✦ Acquired a shallow natural gas property that is currently delivering 4 mmcf/d and a large block of undeveloped land considered prospective for natural gas;
- ✦ In 1998, we intend to exploit this block and build our light oil program.

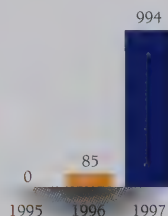


NET LAND
Thousands of Acres

■ Developed
■ Undeveloped



PRODUCTION
Daily Average BOE



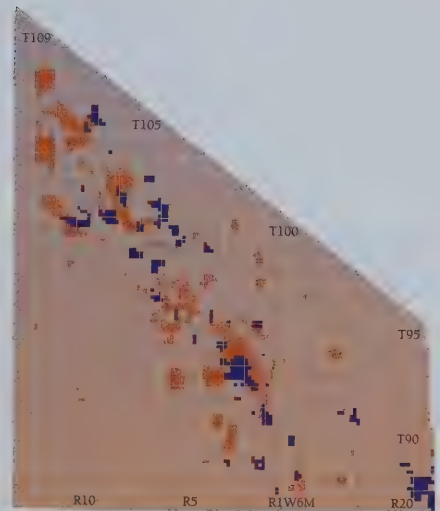
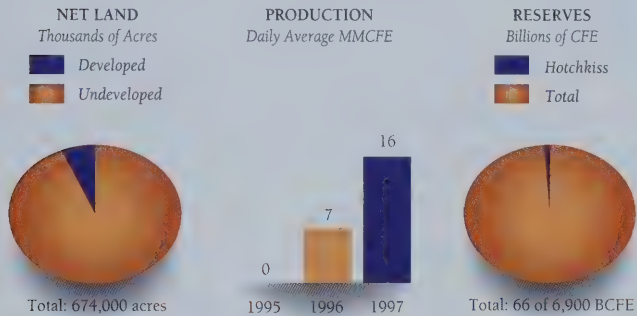
RESERVES
Millions of BOE

■ Sawn
■ Total



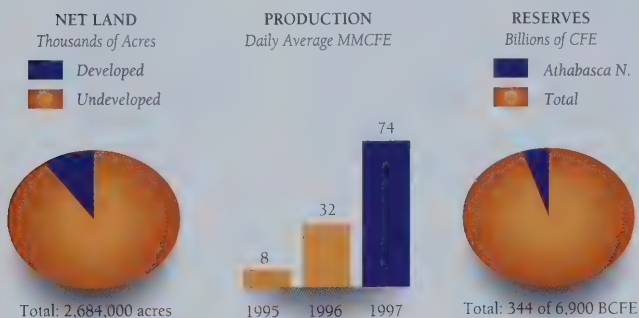
Hotchkiss — PROPERTY HIGHLIGHTS

- Land position established in 1996 by acquiring 325,000 acres at Crown land sales and completing two producing property purchases;
- Expanded our geophysical database by shooting 2,000 miles of proprietary seismic and acquired 180,000 acres of additional land;
- The region is considered prospective for long-term growth in natural gas reserves and production from the moderately shallow Mississippian targets as well as the deeper high quality Slave Point reservoirs.



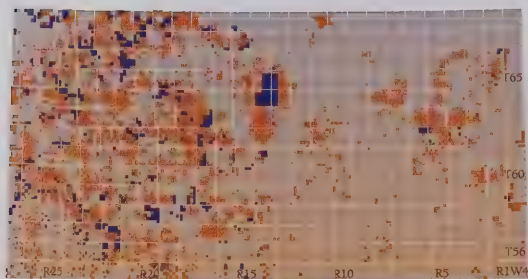
Athabasca North — PROPERTY HIGHLIGHTS

- Main source of 1997 incremental natural gas production;
- The winter of 1997/98 is the third winter drilling season we have been active in the region, and we have an aggressive exploration and development program underway to expand production volumes.



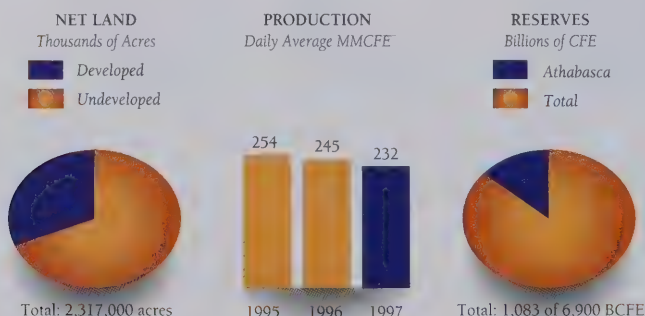
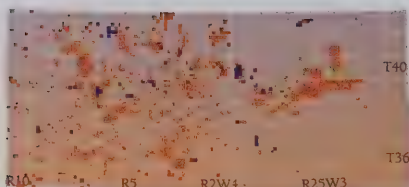
Athabasca — PROPERTY HIGHLIGHTS

- ☛ Renaissance's primary region for production of natural gas;
- ☛ Drilled and completed several wells containing thick, apparently impermeable, channel sands on lands discounted several times by previous operators; some of these wells are currently producing in excess of 4 mmcf/d after stimulation; recognized that these



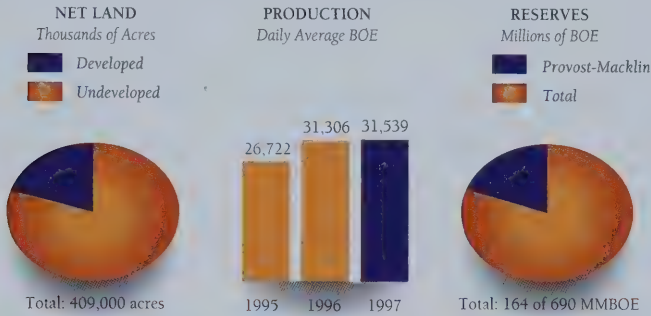
types of reservoirs exist across a contiguous area of approximately 1,200 square miles accessible year round; established a commanding acreage position in this play late in the year; additional drilling scheduled over the balance of 1998;

- ☛ Initiated a project to evaluate the previously recognized but unexploited oil opportunities underlying our large land position by inexpensively recompleting numerous existing Renaissance wellbores; examined and tested six major reservoirs for which preliminary results were very positive, as crude oils produced from multiple horizons varied from 12° to 39° API; further drilling on the best of these prospects is planned in 1998.

**Provost - Macklin — PROPERTY HIGHLIGHTS**

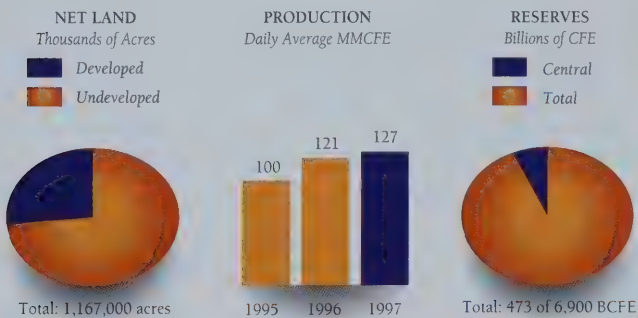
- ☛ Initial oil producing region for Renaissance since 1983;
- ☛ Constructed two modern production facilities to accommodate discoveries made late in 1996;
- ☛ Three pools discovered, followed by a 3-D seismic program in order to more effectively exploit these pools in 1998;

- ☛ Purchased a producing Dina pool at Macklin; expanded the boundaries of this pool; and will continue to grow production through additional drilling in 1998.



Central — PROPERTY HIGHLIGHTS

- ☛ This area has consistently generated excellent drilling results in reservoirs which contain both natural gas and light gravity oil;
- ☛ Active in the region for 15 years; continues to reward us with success in reservoirs that were previously not considered commercial hydrocarbon producers;
- ☛ Purchased a producing natural gas property at McKee Lake supplementing our existing infrastructure and providing additional prospective acreage.



Review of Operations

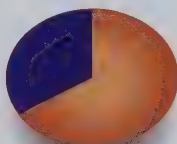
Eastern — PROPERTY HIGHLIGHTS



- Primarily an oil producing region, from the prolific Cretaceous shoreline and channel sands;
- Horizontal drilling projects will continue on our properties where we have been improving traditionally low recovery rates.

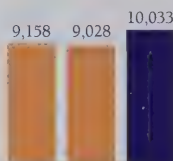
NET LAND
Thousands of Acres

Developed
Undeveloped



Total: 288,000 acres

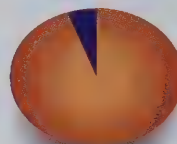
PRODUCTION
Daily Average BOE



1995 1996 1997

RESERVES
Millions of BOE

Eastern
Total



Total: 39 of 690 MMBOE

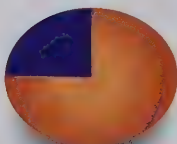
Southern — PROPERTY HIGHLIGHTS



- One of Renaissance's primary oil producing regions; year round accessibility provides us flexibility to control the pace of capital spending;
- Three pools discovered gained us an understanding of the unique trapping mechanisms specific to these discoveries, which provides us with a measurable lead in replicating these pools elsewhere in the region;
- Pace of exploration and development to pick up accordingly in 1998.

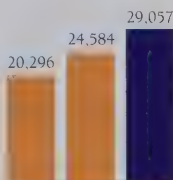
NET LAND
Thousands of Acres

Developed
Undeveloped



Total: 479,000 acres

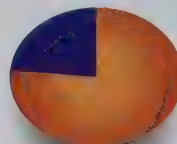
PRODUCTION
Daily Average BOE



1995 1996 1997

RESERVES
Millions of BOE

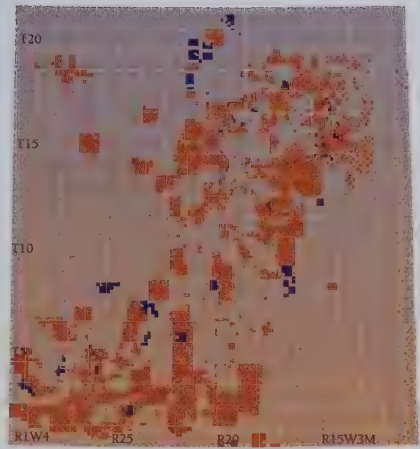
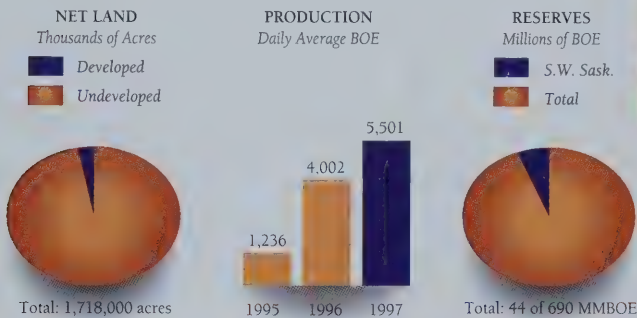
Southern
Total



Total: 212 of 690 MMBOE

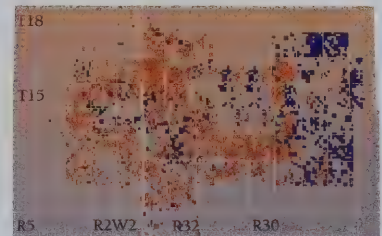
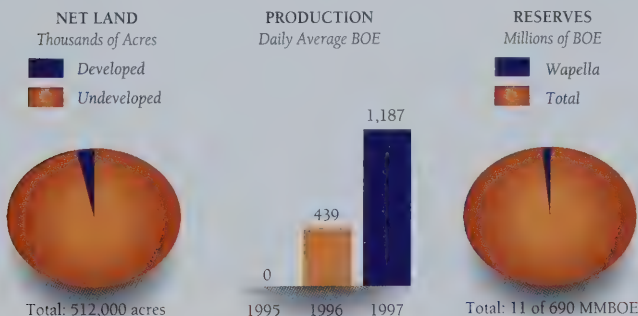
Southwest Saskatchewan — PROPERTY HIGHLIGHTS

- Government approval, late in the year, to commence development of an oil pool discovery at Webb West;
- Developed oil pool discoveries at Java and Swift Current;
- Focus shifted to a shallow, sweet natural gas play in the extreme southwest corner of this region, from which we expect to initiate production in 1998.



Wapella — PROPERTY HIGHLIGHTS

- Established our position in 1996 by acquiring 200,000 acres of land and purchasing a producing oil property;
- Production has risen from 440 bopd to exit the year in excess of 1,600 bopd through a combination of exploration and development drilling, waterflood implementation and production optimization;
- A selective exploration program is in place for 1998 using models developed from our drilling experience over the past year and a half.



REGIONAL ANALYSIS

Drilling Activity and Net Undeveloped Land Holdings

	1997 Wells Drilled	Undeveloped Land (000's Acres)
Southern	425	361
Athabasca North	238	2,425
Athabasca	231	1,591
Provost – Macklin	202	328
Southwest Saskatchewan	194	1,669
Eastern	79	191
Wapella	79	499
Central	67	857
Hotchkiss	47	631
Saskatchewan Exploration Blocks	19	1,423
Sawn Lake	17	288
Other	47	496
	1,645	10,759

Average Daily
Oil Production
Thousands of Barrels

Proven and Probable Reserves

December 31, 1997	Oil		Natural Gas		Value*	
	mmbbls	%	bcf	%	millions	%
Southern	200	41	116	6	\$ 1,251	31
Provost – Macklin	158	33	58	3	903	23
Athabasca	13	2	953	47	718	18
Central	16	3	313	15	274	7
Athabasca North	3	1	314	15	208	5
Southwest Saskatchewan	41	8	28	1	205	5
Eastern	32	7	66	3	192	5
Sawn Lake	8	2	17	1	62	2
Hotchkiss	–	–	66	3	48	1
Wapella	11	2	–	–	43	1
Other	4	1	110	6	65	2
	486	100	2,041	100	\$ 3,969	100

* Estimated future net revenues before overhead and interest expenses and income taxes discounted at 15%.

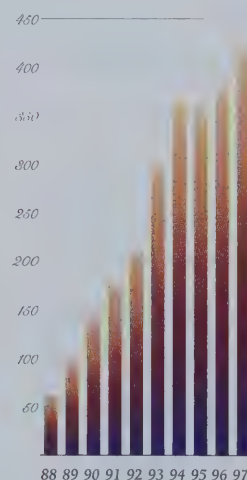
Average Daily Oil Production Volumes (barrels)

<i>Year ended December 31</i>	1997	1996	1995
Provost – Macklin	30,939	30,806	26,012
Southern	28,357	24,284	20,296
Eastern	7,933	6,628	6,058
Central	6,373	5,414	3,306
Southwest Saskatchewan	5,501	4,002	1,236
Wapella	1,187	439	–
Sawn Lake	794	85	–
Athabasca	389	213	–
Other	902	50	189
Average daily production	82,375	71,921	57,097
Total annual (000's)	30,067	26,323	20,840

Average Daily Natural Gas Production Volumes (million cubic feet)

<i>Year ended December 31</i>	1997	1996	1995
Athabasca	228	243	252
Athabasca North	74	32	8
Central	63	67	67
Eastern	21	24	31
Hotchkiss	16	7	–
Other	18	7	–
Average daily production	420	380	358
Total annual	153,322	139,218	130,541

*Average Daily
Natural Gas Production*
Millions of Cubic Feet



MARKETING

Crude Oil

Renaissance directly markets all of its crude oil production to refiners in Canada and the Rocky Mountain and mid-west regions of the United States. By controlling our supply to the end-user, with an emphasis on flexible delivery volumes, qualities and locations, we have established strong relationships with customers. These practices will enable us to continue maximizing the revenue associated with our expanding production.

We transport our crude oil production on numerous pipelines inside Alberta and Saskatchewan to key market centers as well as downstream for deliveries off the Interprovincial/Lakehead, Rangeland/Murphy and Express systems. Our position as a shipper and our substantial industry presence allows considerable flexibility to avoid shut-in production during times of pipeline capacity restrictions.

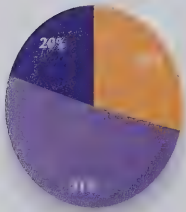
Crude oil flows on a variety of streams within the pipelines according to its gravity and sulphur content. Our crude production is generally medium gravity, averaging 23° API.

Natural Gas

Renaissance's natural gas marketing program extensively covers local distribution, industrial and electrical generation companies across western and central Canada, and the northeast and mid-west United States. Renaissance's established transportation and storage portfolio provides the ability to offer long-term, annual, seasonal or peak delivery service to customers and yields favourable sales price exposure. Approximately 85% of total sales are price responsive to market indices on a monthly basis.

We continually evaluate incremental market and transportation opportunities to ensure our expanding supply base is sold into a diversified pricing and geographic portfolio. Natural gas futures contracts and other financial instruments are utilized occasionally to capture exceptional pricing opportunities. These activities are executed in accordance with guidelines established by the Board of Directors.

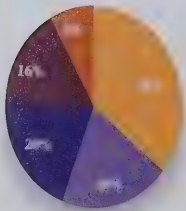
1997
Oil Production
by Market



Total 82,375 bopd



1997
Natural Gas Production
by Market



Total 420 mmcf/d



CORPORATE RESPONSIBILITY

People

Renaissance focuses on creating an entrepreneurial environment throughout its organization that challenges staff to be creative and responsive to the opportunities available in its industry. The organizational structure is aligned along geographical lines with appropriate decision making responsibility and authority.

Recognizing that people are our most important asset, compensation programs include competitive salaries and benefits, a company assisted share purchase plan, and a bonus plan based upon corporate and individual performance. In addition, professional staff qualify for our stock option plan, which provides longer term incentives for the enhancement of shareholders' equity. Virtually all employees are shareholders of Renaissance.

Health, Safety and the Environment

Renaissance has made a firm commitment to operate safely, with sensitivity to the environment and the needs of local residents and our employees.



HEALTH AND SAFETY

We are committed to the safety of employees, agents and residents living near our operations. All personnel, whether management, staff or contractors, are responsible for ensuring that operations are performed as safely as possible. Certificates of recognition for contractors are being implemented through Alberta Occupational Health & Safety and Alberta Labour, a program which ensures that all our contractors have health and safety programs. We have also adopted five Alberta high schools through an Occupational Health & Safety adopt-a-school program which promotes health and safety prior to the students entering the workforce and provides appropriate safety equipment to the schools.

Personnel are continuously trained in all aspects of safety. Renaissance has amongst the lowest Worker Compensation Board (WCB) and insurance rates in the industry. In 1997, we maintained our exceptional record of minimal lost-time accidents.



ENVIRONMENT

Renaissance's operating practices respond positively to environmental concerns. We adhere to strict environmental standards in all of our operations and play a key role in the development of reclamation criteria for well sites and associated facilities. The latest environmental technology is incorporated in new facilities while older facilities are continually upgraded.

Some of our continuing environmental programs are gathering system and downhole corrosion inhibition to prevent line breaks and prolong the life of pipelines and downhole equipment, innovative new technologies for site reclamation such as huge soil mixers to markedly accelerate the degradation of hydrocarbons using natural bacteria in soil, and a detailed and proactive program of well and facility site abandonment, clean-up and restoration. We employ no-strip or minimum disturbance construction when building the majority of our wellsites, a practice which leaves topsoil intact, and take care to re-seed disturbed areas with compatible species of native prairie grass to maintain the ecosystem.

Regular environmental inspections of all sites and proposed property purchases are performed and detailed environmental plans are produced for all operating areas. We are proud of the fact that our Environmental Protection Plan developed for the Webb area in Southwest Saskatchewan is being used by the province to develop criteria for development in critical wildlife areas and environmentally sensitive lands.

Controlling greenhouse gas emissions is something we take seriously in our commitment to remain an efficient, cost effective and responsible producer. We strive to increase the efficiency of our operations by implementing new technologies and new ideas that minimize emissions, increase electrical efficiency and reduce the need for gas consumption in the production process. As a result, we have been able to reduce emissions on a CO² equivalent basis despite maturing reservoirs and growth in production volumes.



In terms of waste disposal, we have a simple, flexible and workable program which promotes reducing waste wherever possible, reusing products where practicable, and recycling.

In the areas in which we operate, open lines of communication are maintained with residents and local governments to ensure stakeholders are kept informed of any aspect of our operations which may impact them. The company provides advance notice of new plant construction and conducts forums to discuss community issues related to our activities, and also invites residents to periodic open houses at Renaissance facilities.

Community Investment

Renaissance is committed to assist local communities and non-profit organizations in fundraising efforts that enhance the quality of life and make a meaningful difference to the communities in which we operate.

We focus our community investment on social and health issues, education, youth development and conservation. We target geographic areas in the vicinity of our operations.

CORPORATE GOVERNANCE

Corporate governance leadership originates first and foremost from Renaissance's Board of Directors, which has been purposely kept small and appoints a minimum of committees. The entire Board is involved in as many issues and decisions as possible.

The Board of Directors is responsible for the direction and stewardship of Renaissance, ensuring shareholders' equity is preserved and grown, and that the rights of our employees are recognized and maintained. It is also responsible for ensuring operating practices are consistent with good corporate citizenship and adhere to all laws and regulations.

The Board meets at least five times per year and also holds telephone conference call meetings to approve specific agenda items. It has three committees — Audit, Compensation, and Safety & Environment, to each of which certain functions are delegated in order to allow for more detailed review prior to being considered by the full Board.

Board approval is required for any management decision which may have a significant impact on Renaissance. The Board also approves all debt and equity financings, changes to compensation programs and major awards, as well as annual and quarterly financial reports to shareholders, prospectuses, Annual Information Forms, Information Circulars-Proxy Statements and the appointment of executive officers.

The Board actively monitors two areas under management purview: strategic planning and risk management. Strategic planning is initiated by the executive officers and at least one Board meeting per year is devoted entirely to strategic planning issues. Risk management includes: recruitment and retention of employees, availability of capital, exploration success, reservoir performance, commodity prices, foreign exchange rates, interest rates and availability of contract services. Financial risks managed through longer-term hedging strategies developed by management are approved and monitored regularly by the Board.

Executive officers handle investor relations responsibilities and report to the Board on a regular basis.

Six of the eight Board members are independent of management, having no contracts with Renaissance and not receiving direct remuneration above directors' fees and participation in the stock option plan. Directors participate in ongoing education on Renaissance's activities, including regular field inspections.

The Renaissance Board of Directors

Ronald G. Greene (Age: 49 years) Chairman. In 1974, Ron founded our predecessor company, Renaissance Resources, which acted as an operator of drilling funds until being rolled into Renaissance Energy in 1982. He served as Chief Executive Officer until 1990, when he stepped aside to become Executive Chairman, a role he held until 1995. Ron is now an independent businessman through his ownership of Tortuga Investment Corp.; he resides in Calgary, Alberta. He is also Chairman of the Board of Denbury Resources Inc. and is a director of WestJet Airlines Ltd..

Jonathan H. Deitcher (Age: 51 years) has served as a director of Renaissance since 1982. He is a Vice-President and Director of RBC Dominion Securities Inc. and lives in Montreal, Quebec. Jonathan is also a director of Vincor International, Phoenix Pictures and North American Vaccine, Inc..



Brent D. Kinney LL.B (Age: 55 years) is an international petroleum lawyer with Clyde & Co. in Dubai, United Arab Emirates and was appointed to the Renaissance Board in late 1995. In the early 1990's, he acted as legal advisor to the Minister of Energy, State of Qatar, Arabian Gulf. Brent served as Renaissance's corporate counsel throughout the 1980's while a partner at Burnet, Duckworth & Palmer.

Wilmot L. Matthews C.A. (Age: 61 years) was Vice-Chairman and Director of Nesbitt Burns Inc. from 1994 to 1996 and held the same position at predecessor company Burns Fry Limited. Wil has been a director of Renaissance since 1980. He is currently an independent businessman and makes his home in Toronto, Ontario. Wil also serves on the boards of Denbury Resources Inc. and WestJet Airlines Ltd..

J. Dean Muncaster (Age: 64 years) has been a Renaissance Board member since 1986. He is currently Chairman of Spill Tech Industries Inc. and lives in Collingwood, Ontario. From 1993 to 1995, he was President of Environmental Technologies International Inc. Dean is also a director of Stelco Inc..

Daryl K. (Doc) Seaman O.C., B.E., LLB, PEng. (Age: 75 years) is an independent businessman, heading up Dox Investments Inc.. He was appointed to the Board in 1992 and lives in Calgary. Until 1992, he was Chairman of the Board and Chief Executive Officer of Bow Valley Industries Ltd.. Doc is also a director of Abacan Resource Corporation, Potash Corporation of Saskatchewan Inc., Mercantile International Petroleum Inc., Bow Valley Energy Ltd., Encal Energy Ltd., Canadian Chemical Reclaiming Ltd., Far West Mining Ltd., and Tetonka Drilling Inc..

Sheldon B. Steeves P.Geol. (Age: 44 years) joined Renaissance in 1985 as Chief Geologist. His successive roles included Exploration Manager, Vice-President of Exploration and Senior Vice-President. He was appointed Executive Vice President and Chief Operating Officer in January 1997, at which time he joined the Board. Sheldon lives in Calgary.

Clayton H. Woitas PEng. (Age: 49 years) is President and Chief Executive Officer of Renaissance and makes his home in Calgary. He joined the company in 1983 as Vice-President of Operations and a director, becoming President and Chief Operating Officer in 1987 and Chief Executive Officer in 1990.

COMMON SHARE TRADING

The common shares of Renaissance are listed for trading on the Toronto Stock Exchange and the Montreal Exchange, trading under the symbol "RES". At December 31, 1997, Renaissance had the fifth highest relative weight within the oil and gas segment of the TSE 300 Composite Index and ranked 37th overall. Renaissance is included in the TSE 35 index which forms the basis for separate trading of participation units, futures and options.

The following summarizes our trading and share statistics over the last three years:

<i>Year ended December 31</i>	1997	1996	1995
Trading volume (thousands)			
Toronto Stock Exchange	129,425	68,448	70,526
Montreal Exchange	12,569	11,430	13,230
Total	141,994	79,878	83,756
% of average number of shares outstanding	122%	69%	88%
Daily average	563	314	334
Trading value (millions)			
	\$ 5,278	\$ 3,098	\$ 2,433
Share price			
High	\$ 50.00	\$ 51.00	\$ 34.25
Low	\$ 28.15	\$ 32.00	\$ 23.25
Weighted average	\$ 37.17	\$ 38.79	\$ 29.04
Market capitalization			
Shares outstanding (thousands)	116,222	115,410	105,972
Year-end share price	\$ 29.50	\$ 46.65	\$ 34.00
Total (millions)	\$ 3,429	\$ 5,384	\$ 3,603

The common shares of Renaissance continue to be amongst the most liquid of the oil and natural gas equities traded on the Canadian stock exchanges.

RENAISSANCE'S OUTSTANDING SHARES

As at February 27, 1998, there were 116,373,894 common shares outstanding and a further 9,082,250 common shares reserved for the exercise of stock options, for a total of 125,456,144 common shares on a fully diluted basis. Directors and officers of Renaissance owned 3,193,942 common shares representing 2.7% of the total common shares outstanding; on a fully diluted basis, they owned 12,276,192 common shares or 9.8%. Trimark Investment Management Inc. of Toronto controlled 19,257,800 common shares representing 16.5% of the total common shares outstanding.

Management's Discussion & Analysis of Financial Condition & Results of Operations

ar/97

RESULTS OF 1997 OPERATIONS

Operating Income (millions)

Year ended December 31	1997	1996	1995
Petroleum and natural gas revenues	\$ 948	\$ 953	\$ 603
Royalties	(157)	(150)	(93)
Production expenses	(193)	(152)	(117)
Operating income	\$ 598	\$ 651	\$ 393
Oil/natural gas revenue ratio	64/36	68/32	70/30
Netback per BOE*			
Sales price	\$ 20.88	\$ 23.67	\$ 17.78
Royalties	(3.46)	(3.72)	(2.75)
Production expenses	(4.25)	(3.77)	(3.43)
	\$ 13.17	\$ 16.18	\$ 11.60
Daily production volume BOE*	124,381	109,959	92,860

* "BOE" throughout this section refers to "Barrels of Oil Equivalent Production". Natural gas volumes are converted to oil equivalence at a ratio of 10 mcf to one barrel. This conversion factor is an industry accepted norm and is not based on either energy equivalency or current prices.

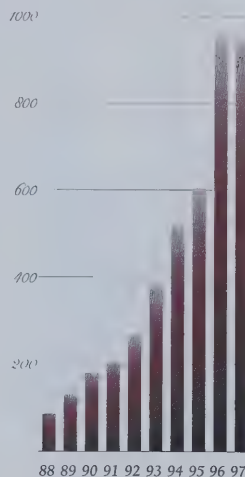
Oil Operations

Renaissance's oil sales volumes increased 15% in 1997, averaging 82,375 barrels per day, as a result of our exploration, exploitation and acquisition activities in all regions.

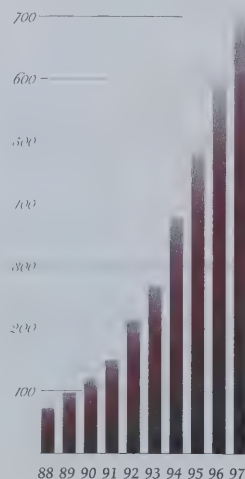
Our average oil price declined sharply in 1997 due to a 7% reduction in the benchmark WTI oil price, and a widening of the differential between our blend of crude oils and the benchmark light crude oil posting to average \$7.20 per barrel from \$4.78 in 1996. The decline in price was partially offset by a weaker Canadian dollar. Oil royalties remained relatively constant at 18% of revenues.

Oil operating costs increased 8% due to maturing reservoirs and inflationary cost pressures, as all elements of the service sector were essentially working at full capacity.

Gross Revenue
Millions of Dollars



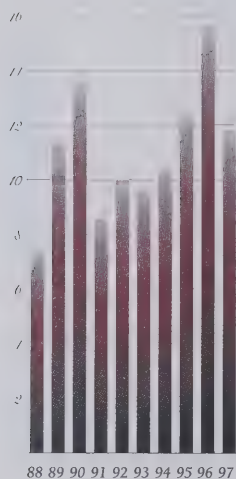
BOE Reserves
Millions of BOE



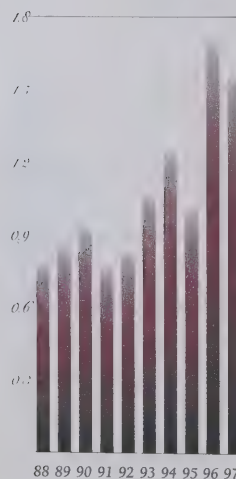
Management's Discussion & Analysis

of Financial Condition & Results of Operations

Oil Netbacks
Dollars per Barrel



Natural Gas Netbacks
Dollars per Thousand Cubic Feet



OIL NETBACKS PER BARREL

Year ended December 31	1997	1996	1995
Sales price	\$ 20.28	\$ 24.69	\$ 20.38
Royalties	(3.56)	(4.47)	(3.60)
Production expenses	(4.84)	(4.50)	(4.30)
Netback	\$ 11.88	\$ 15.72	\$ 12.48
Royalty percentage	18%	18%	18%
Average daily production (barrels)	82,375	71,921	57,097

Natural Gas Operations

Renaissance's natural gas sales volumes increased 11% in 1997 to average 420 million cubic feet per day, as a result of our exploration and development programs.

Our average natural gas price in 1997 remained relatively constant at \$2.21 per thousand cubic feet. Natural gas royalties during 1996 averaged only 11% of revenues as we significantly exceeded the industry's much lower average price, which is the basis for assessment. In 1997, we marginally exceeded the industry's average, resulting in an increase in our rate to 15% of revenues.

Operating costs increased to \$0.31 per thousand cubic feet from \$0.24 as a result of inflationary cost pressures from the service sector, higher production volumes from our northern region where costs are higher than our southern regions, and the increased proportion of our new production volumes being processed through other operators' facilities, as required by regulation.

NATURAL GAS NETBACKS PER THOUSAND CUBIC FEET

Year ended December 31	1997	1996	1995
Sales price	\$ 2.21	\$ 2.18	\$ 1.36
Royalties	(0.34)	(0.24)	(0.15)
Production expenses	(0.31)	(0.24)	(0.20)
Netback	\$ 1.56	\$ 1.70	\$ 1.01
Royalty percentage	15%	11%	11%
Average daily production (million cubic feet)	420	380	358

General and Administrative Expenses

Gross overhead increased 12% to \$57 million due to increased staffing. When expressed on a barrel of oil equivalent production basis, gross overhead in 1997 remained relatively constant as staffing increases paralleled gains in production. Operator recoveries increased 14% due to increased levels of activity.

GENERAL AND ADMINISTRATIVE EXPENSES (millions)

Year ended December 31	1997	1996	1995
Gross expenses	\$ 57	\$ 51	\$ 42
Operator recoveries - capital	(14)	(14)	(9)
- operating	(18)	(14)	(11)
Net expenses	\$ 25	\$ 23	\$ 22
Average cost per BOE - gross	\$ 1.26	\$ 1.27	\$ 1.23
- net	\$ 0.55	\$ 0.56	\$ 0.63
Employees as at December 31			
Head office	373	320	290
Field operations	341	279	227
Total	714	599	517

Interest and Financial Expenses

Renaissance's average debt outstanding in 1997 increased to \$570 million while our average interest rate decreased to 5.4%. The net result was a decline in interest expense.

In 1996, we incurred a \$13 million prepayment penalty as Canadian interest rates decreased relative to U.S. interest rates and it became attractive for us to prepay our US\$150 million Senior Notes, which were refinanced in the Canadian market.

INTEREST AND FINANCIAL EXPENSES (millions)

Year ended December 31	1997	1996	1995
Interest expenses	\$ 33	\$ 35	\$ 39
Prepayment penalty	—	13	—
Total	\$ 33	\$ 48	\$ 39
Average cost per BOE	\$ 0.73	\$ 1.20	\$ 1.15
Average debt outstanding	\$ 570	\$ 515	\$ 500
Average interest rate *	5.4%	6.8%	7.9%
Cash flow times interest coverage*	16	16	9

* excluding prepayment penalty in 1996

Management's Discussion & Analysis

of Financial Condition & Results of Operations

Capital Taxes

Federal and provincial capital taxes are based on year-end equity and debt levels. In 1997, this expense increased 25% to \$10 million as a result of the growth in our capitalization and increased operations in Saskatchewan, where an additional tax is levied.

CAPITAL TAXES (millions)

Year ended December 31	1997	1996	1995
Federal capital tax	\$ 7	\$ 6	\$ 4
Saskatchewan capital tax	3	2	1
Total	<u>\$ 10</u>	<u>\$ 8</u>	<u>\$ 5</u>
Average cost per BOE	\$ 0.22	\$ 0.20	\$ 0.15

Depletion, Depreciation and Site Restoration

In 1997, depletion, depreciation and site restoration expense increased by \$53 million to \$333 million. Higher production volumes accounted for two-thirds of the increase and the balance was due to a 5% increase in our depletion rate. The depletion rate increase was predominantly attributable to higher service sector costs.

DEPLETION, DEPRECIATION AND SITE RESTORATION (millions)

Year ended December 31	1997	1996	1995
Depletion and depreciation	\$ 318	\$ 268	\$ 202
Site restoration provision	15	12	10
Total	<u>\$ 333</u>	<u>\$ 280</u>	<u>\$ 212</u>
Average cost per BOE	\$ 7.33	\$ 6.95	\$ 6.24

Deferred Income Taxes

Renaissance's provision for deferred taxes declined by 26% while pre-tax income decreased 32%. Our effective tax rate increased to 42% due to the narrowing in 1997 of the excess between our average natural gas price and the industry's average realization, and the resulting impact on royalties and income taxes.

All income tax liabilities were deferred due to the difference in the amortization rates for accounting and tax purposes, and more importantly, historic investment levels that have exceeded cash flow by a factor of two times. As a result, Renaissance has \$2.4 billion in deductions available at December 31, 1997 to claim against future taxable income.

Our effective tax rate of 42% differed from the 45% statutory rate, reflecting the difference between non-deductible Crown royalties and the resource allowance deduction.

DEFERRED INCOME TAXES (millions)

<i>Year ended December 31</i>	1997	1996	1995
Deferred income taxes	\$ 82	\$ 111	\$ 51
Average cost per BOE	\$ 1.80	\$ 2.76	\$ 1.52
Effective tax rate	42%	38%	45%

While Renaissance does not currently pay cash income taxes, we have paid the following amounts to various levels of government in Canada in recent years:

PAYMENTS TO GOVERNMENTS (millions)

<i>Year ended December 31</i>	1997	1996	1995
Crown royalties	\$ 111	\$ 103	\$ 60
Lease acquisitions and retentions	58	89	68
Capital taxes	10	8	5
Property and business taxes	12	8	8
Freehold mineral taxes	8	7	5
Other charges and levies	9	12	6
Total	\$ 208	\$ 227	\$ 152

Management's Discussion & Analysis of Financial Condition & Results of Operations

LIQUIDITY AND CAPITAL RESOURCES

Renaissance's funding for capital expenditures is derived from cash flow, supplemented by credit facilities and equity issues. We do not consider substantial levels of debt financing appropriate for our organization since we have limited control over our financial risks, particularly commodity prices. Consequently, our capital structure at December 31, 1997 comprised 73% equity and 27% debt.

Renaissance's authorized credit facilities, all of which are unsecured and may be drawn in Canadian or U.S. funds, total \$1.35 billion:

- ☛ \$400 million of commercial paper
- ☛ \$100 million operating bank facility
- ☛ \$450 million of extendible, revolving term bank facilities
- ☛ \$400 million of medium term notes

The public debt facilities are rated by Canada's major debt rating agencies, the Canadian Bond Rating Service and the Dominion Bond Rating Service. The current ratings are:

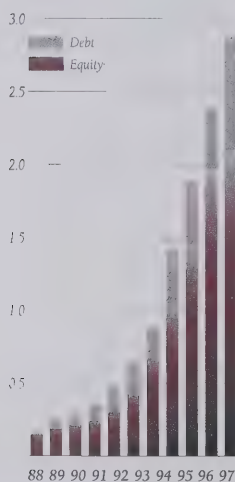
	CBRS	DBRS
Commercial paper	A-1	R-1 (Low)
Medium term notes	A (High)	A (High)

At December 31, 1997, \$782 million was drawn under the various credit facilities, all in Canadian dollars. These facilities have been established on a conservative basis and the financial covenants have been readily satisfied. Principal repayments under the term facilities are not required before 2001.

All sales receivables and trade payables are settled on a monthly basis. Working capital liquidity is maintained through drawings and repayments on the bank and commercial paper facilities as well as the maintenance of unutilized credit capacity.

As the majority of the ongoing capital expenditure program is directed to the further growth of reserves and production volumes, Renaissance is readily able to adjust its capital expenditures should the need arise.

Capital Structure
Billions of Dollars



BUSINESS RISKS

Our business is subject to several key risks, including operational, financial and regulatory.

Operational Risks

Operational risks include recruiting and retaining professional staff, accessing contract services, finding and developing oil and natural gas reserves, ongoing reservoir production performance, and marketing the related production. These risks are mitigated by:

- ☛ employing compensation programs that provide industry leading edge remuneration when corporate performance is superior;
- ☛ maintaining long-term supplier relationships with predictable levels of activity;
- ☛ maintaining a geologically diverse, but geographically concentrated, prospect inventory;
- ☛ using new technologies extensively;
- ☛ undertaking a large drilling program;
- ☛ installing an efficient, environmentally-sensitive production infrastructure;
- ☛ marketing our production directly to a diverse group of customers and markets;
- ☛ maintaining direct control of pipeline transportation capacity wherever possible; and
- ☛ maintaining prudent levels of insurance.

Year 2000 presents unique operational risks for most businesses, including ours. Accordingly, a project team was established in 1997 to identify risks, inventory all systems, survey key suppliers and customers, prepare strategies and plans to deal with the issue, test and modify systems, and establish standards for developing new systems.

Our identified risks include the maintenance of production infrastructure and internal computer systems, and the continued timely delivery and receipt of goods and services by key suppliers and customers. To date we have concentrated on the Year 2000 compliance of production control devices and computer systems developed by or provided to Renaissance. The assessment phase is now complete and the implementation phase is expected to be completed by the end of 1998. In addition, we plan to survey key suppliers and customers as to their ability to achieve and prepare strategies and plans to deal with the issue by that time.

The anticipated total project cost is \$640,000, of which \$240,000 was incurred and expensed in 1997.

Management's Discussion & Analysis of Financial Condition & Results of Operations

Financial Risks

Financial risks include availability of capital, commodity prices, the Canadian/United States foreign exchange rate, and interest rates, all of which are largely beyond the control of management. These risks are mitigated by:

- ☛ relying upon an equity-based balance sheet;
- ☛ maintaining low costs to maximize our profitability;
- ☛ utilizing hedging techniques to ensure short-term cash flow levels;
- ☛ utilizing physical contracts to manage prices received; and
- ☛ maintaining a balanced exposure to short, medium and long-term interest rates.

In 1998, we have hedged a portion of our natural gas sales volumes. The status of this program as of February 27, 1998 was:

	Volume (mmcf/d)	Average Price**	Realized Gain*	Unrealized Loss*	Total*
1998 First Quarter	177	\$ 2.79	\$ 12.9	\$ -	\$ 12.9
1998 Second Quarter	118	2.27	-	(1.0)	(1.0)
1998 Third Quarter	18	2.28	-	(0.2)	(0.2)
1998 Fourth Quarter	4	2.31	-	(0.1)	(0.1)
			\$ 12.9	\$ (1.3)	\$ 11.6

* Millions of Canadian dollars

** United States dollars

Regulatory Risks

Regulatory risks include governments' energy policies, taxation laws, and operational laws. The oil and natural gas industry has historically been subject to a high degree of government regulation, which Renaissance is unable to control. These risks are mitigated by:

- ☛ adopting a proactive approach to public policy initiatives to minimize any negative impact on our operations;
- ☛ maintaining comprehensive programs and contingency plans to control health, safety and environmental risks which exceed existing legislative and regulatory requirements;
- ☛ performing regular audits of our operations to ensure compliance with applicable regulations and Renaissance standards; and
- ☛ maintaining a proactive program of well site and facility reclamation and restoration to minimize future liabilities.

BUSINESS PROSPECTS

Competitive Industry Environment

Oil and natural gas prices are commodities affected by global and regional events of an economic, political and environmental nature. Such events necessarily impact the price of the commodity in that either security of supply or demand for the product is impacted to varying degrees. The outlook for prices, in turn, has a major influence on levels of competition and capital investment in the business.

OIL PRICES

Since early 1997, benchmark world oil prices have declined considerably as a result of excess supply, anticipated reduced demand due to the economic turmoil in Asia, and high inventories due to a warmer-than-normal winter in North America and Europe. The anticipated return of additional volumes of Iraqi crude oil is another bearish factor. Any improvement in prices will be predicated upon the actions of the OPEC cartel.

For Canadian producers, the oil price weakness has been exacerbated by an expanding price differential between light and heavy crude oils. The differential is currently at its highest level in seven years due to a supply and demand imbalance in North America brought on by increased Canadian and foreign supply and the lack of significant additions to heavy oil refining capacity.

A weak Canadian dollar is providing Canadian producers with some protection against the lower prices.

A shortage of capacity on Interprovincial Pipe Line (IPL), the major transporter of crude oil in Canada, has from time to time resulted in delivery constraints. IPL is proceeding with expansion plans to provide capacity additions in early 1999. In the meantime, Canadian crude oil shippers have worked together to develop programs which utilize all available export capacity to minimize shut-in production due to pipeline constraints and move as much crude to market as possible. For example, the West Coast Initiative moves Alberta light crude royalty volumes to the west coast to allow more heavy crude to be shipped on IPL, with any costs shared by all Alberta conventional royalty payers. Should current supply continue to grow, pipeline capacity will remain an issue until IPL completes its current expansion program.

Management's Discussion & Analysis of Financial Condition & Results of Operations

NATURAL GAS PRICES

Natural gas prices have remained strong despite the relatively warm weather experienced in North America this winter. Productive capability has remained relatively flat over the last year with producers pressured to maintain volumes as new wells placed on production have only off-set reservoir declines.

In Canada, more than one billion cubic feet per day of new export capacity will be added by November 1998, with additional capacity scheduled to come on-stream in 2000. These expansions will ensure that all Canadian supply can reach competitive markets. Canadian natural gas prices, discounted in recent years, should benefit as realizations equate to United States' prices adjusted for transportation differentials.

ACTIVITY LEVELS

A positive outlook for natural gas prices and a negative view on oil prices is precipitating a dramatic shift of industry exploration and development activities to natural gas prospects. However, barring any significant improvement in oil prices, overall capital budgets are expected to be lower. We anticipate this will result in considerably reduced industry activity following spring break-up, reducing demand for services and improving costs. As well, industry rationalizations through mergers and acquisitions are expected to continue.

Renaissance's 1998 Operations

1998 will be a year to be prudent in our allocation of capital as our primary source of financing, cash flow, has been severely impacted by the decline in oil prices. Accordingly, we have established a budget for our ongoing exploration and development activities of \$600 million, with a strong emphasis on increasing natural gas volumes in advance of the 1998/99 winter demand season.

Over the first two months of 1998, natural gas production has averaged 430 million cubic feet per day and volumes are anticipated to escalate as we complete our winter drilling and tie-in programs.

Oil production has averaged 81,750 barrels per day, down from the 86,000 barrels per day averaged in the fourth quarter of 1997. In response to reduced oil prices, we have curtailed low margin oil production and deferred development activities normally scheduled to offset natural reservoir decline.



The key to our future success lies in controlling costs — finding and development, royalty, operating, overhead and financial — and enhancing reservoir performance.

Due to industry's historical penchant for short-term reactions to commodity prices, we believe that a number of oil properties will be available in 1998 at low costs. Any sizable acquisitions in this area will be incremental to our capital expenditure budget and funded through our substantial credit capacity or other sources.

The following analysis sets out the sensitivities of Renaissance's cash flow and net income:

SENSITIVITIES (millions except per share amounts)

	Cash Flow	Per Share	Net Income	Per Share
<i>Operational risks</i>				
Change of 1,000 barrels in average daily oil production	\$ 3	\$ 0.02	\$ 1	\$ 0.01
Change of 10 million cubic feet in average daily natural gas production	\$ 5	\$ 0.04	\$ 1	\$ 0.01
<i>Financial risks</i>				
Change of US\$1.00 per barrel in the average price of crude oil	\$ 37	\$ 0.30	\$ 22	\$ 0.17
Change of US\$0.10 per thousand cubic feet in the average price of natural gas	\$ 18	\$ 0.15	\$ 11	\$ 0.08
Change of \$0.01 in the Canadian/United States foreign exchange rate	\$ 12	\$ 0.09	\$ 7	\$ 0.06
Change of 1% (100 bps) in interest rates	\$ 3	\$ 0.02	\$ 2	\$ 0.01

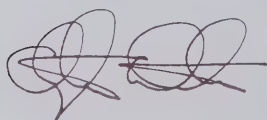
Renaissance's sensitivities are calculated based upon widely published benchmarks. However, they do not factor in all market pricing elements and accordingly are approximations only.

MANAGEMENT'S REPORT

Management is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report.

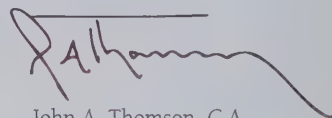
Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee, consisting of non-management directors, has reviewed the financial statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.



Clayton H. Woitas
President and
Chief Executive Officer

Calgary, Alberta
February 26, 1998



John A. Thomson, C.A.
Senior Vice President,
Chief Financial Officer
and Secretary

AUDITORS' REPORT

To the Shareholders of Renaissance Energy Ltd.:

We have audited the balance sheet of Renaissance Energy Ltd. as at December 31, 1997 and 1996 and the statements of income and retained earnings and cash flow for each of the years in the three year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and its cash flow for each of the years in the three year period ended December 31, 1997 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

Calgary, Alberta

February 25, 1998

Financial Statements

BALANCE SHEET (Thousands of Dollars)

NOTE	December 31	
	1997	1996
ASSETS		
Current Assets		
Cash	\$ 1,261	\$ —
Accounts receivable	80,666	99,731
	80,927	99,731
(2) Property, Plant and Equipment	3,364,360	2,739,638
	<u>\$ 3,445,287</u>	<u>\$ 2,839,369</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 38,321	\$ 9,993
Accrued liabilities	126,831	138,753
	165,152	148,746
(3) Site Restoration Accrual	25,277	17,412
(4) Long-Term Debt	781,785	414,001
Deferred Income Taxes	372,108	290,408
SHAREHOLDERS' EQUITY		
(6) Share Capital	1,524,510	1,507,710
Retained Earnings	576,455	461,092
	<u>2,100,965</u>	<u>1,968,802</u>
	<u>\$ 3,445,287</u>	<u>\$ 2,839,369</u>

Signed on Behalf of the Board



R. G. Greene,
Director and
Chairman of the Board



W. L. Matthews, C.A.,
Director and
Chairman of the Audit
Committee

STATEMENT OF INCOME AND RETAINED EARNINGS (Thousands of Dollars)

Year Ended December 31

NOTE	1997	1996	1995
Operating Income			
Petroleum and natural gas revenues	\$ 948,156	\$ 952,762	\$ 602,619
Royalties	(157,262)	(149,705)	(93,328)
Production expenses	(192,968)	(151,737)	(116,305)
	597,926	651,320	392,986
Expenses			
General and administrative	25,154	22,722	21,493
(4) Interest on long-term debt	32,909	48,135	38,825
Foreign exchange loss	—	993	1,728
Capital taxes	10,200	7,921	4,941
Depletion and depreciation	317,300	267,800	201,400
Current site restoration provision	15,300	12,100	10,100
Income Before Income Taxes	197,063	291,649	114,499
(7) Deferred income taxes	81,700	111,200	51,400
(8) Net Income	115,363	180,449	63,099
Retained Earnings, beginning of year	461,092	280,643	217,544
Retained Earnings, end of year	\$ 576,455	\$ 461,092	\$ 280,643

STATEMENT OF CASH FLOW (Thousands of Dollars)

NOTE	Year Ended December 31		
	1997	1996	1995
Operating Activities			
Net income	\$ 115,363	\$ 180,449	\$ 63,099
Add charges not affecting cash			
Depletion and depreciation	317,300	267,800	201,400
Current site restoration provision	15,300	12,100	10,100
Foreign exchange loss	—	993	1,728
Deferred income taxes	81,700	111,200	51,400
(8) Cash flow from operations	529,663	572,542	327,727
Financing Activities			
Increase (decrease) in long-term debt	367,784	(16,036)	71,421
Decrease in deferred foreign exchange	—	4,637	7,770
Issue of shares	16,800	333,541	331,106
Decrease in deferred revenue	—	(6,966)	(8,360)
Decrease (increase) in non-cash working capital	35,471	25,256	(4,840)
	420,055	340,432	397,097
Cash Available for Investing Activities	949,718	912,974	724,824
Investing Activities			
Additions to property, plant and equipment	(942,022)	(905,451)	(718,433)
Site restoration expenditures	(7,435)	(7,561)	(8,163)
	(949,457)	(913,012)	(726,596)
Increase (Decrease) in Cash	261	(38)	(1,772)
Cash, beginning of year	—	38	1,810
Cash, end of year	\$ 261	\$ —	\$ 38

DECEMBER 31, 1997, 1996 AND 1995 (Tabular Amounts in Thousands, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

a) **Property, Plant and Equipment**

I) CAPITALIZED COSTS

The full cost method of accounting for petroleum and natural gas properties and related expenditures is followed. Under this method, all costs related to the exploration and development of petroleum and natural gas reserves are capitalized. Capitalized costs include those related to lease acquisitions, geological and geophysical activities, lease rentals on non-producing properties, and drilling of productive and non-productive wells. General and administrative expenses are not capitalized other than to the extent of the Company's working interest in Company-operated capital expenditure programs to which operator fees have been charged equivalent to standard industry operating agreements. Interest expense is not capitalized.

Proceeds from the disposition of petroleum and natural gas properties are accounted as a reduction in capitalized costs, with no gain or loss recognized unless such disposition would alter the depletion and depreciation rate by 20% or more.

II) DEPLETION AND DEPRECIATION

Depletion of petroleum and natural gas properties and depreciation of production equipment and facilities are calculated on the unit-of-production method based upon:

- ☛ total estimated proven developed and undeveloped reserves, before royalties;
- ☛ total capitalized costs plus estimated future development costs of proven undeveloped reserves less estimated net realizable value of production equipment and facilities after the proven reserves are fully produced; and
- ☛ relative volumes of petroleum and natural gas reserves and production converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of crude oil.

III) CEILING TEST

The carrying amount of property, plant and equipment, net of recorded deferred income taxes and accrued site restoration costs, is limited to the sum of:

- ✦ estimated future net revenues from proven reserves, less estimated future development costs of proven undeveloped reserves; and
- ✦ the cost of undeveloped properties less estimates of impairment

less estimates of future:

- ✦ site restoration costs;
- ✦ production-related general and administrative expenses;
- ✦ interest expenses; and
- ✦ applicable income and capital taxes

plus estimates of future:

- ✦ net realizable value of production equipment and facilities.

No write-down of property, plant and equipment has ever been required under the ceiling test.

The calculations and estimates in II) and III) above have been prepared by management and are based upon sales prices, costs and regulations in effect at the end of the year. Independent engineers have evaluated or reviewed over 75% of the estimates of proven developed and undeveloped reserves and related future net revenues and development costs. Company engineers have evaluated the balance of the reserves.

b) Site Restoration Costs

Future site restoration costs will be expensed over the life of the remaining proven reserves. The current site restoration provision represents the annual recognition of such expense based upon the production volumes of that year. Site restoration accrual represents the aggregate of such annual provisions less the aggregate of actual site restoration expenditures incurred.

c) Foreign Currency Translation

Foreign currency denominated revenues are translated to Canadian dollars at the monthly average exchange rate. Foreign currency denominated monetary assets and liabilities are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and resulting gains or losses are included in the determination of net income for the period.

d) Joint Ventures

Substantially all petroleum and natural gas activities are conducted on a 100% ownership basis. For activities conducted jointly with others, the accounts reflect only the Company's proportionate interest.

e) Financial Instruments

Financial instruments are used to manage exposures related to interest rates, the Canada/U.S. exchange rate, and oil and natural gas prices. They are not used for speculative trading purposes.

Amounts received or paid under interest rate swaps are recognized in interest expense on an accrual basis, while gains and losses on exchange rate and commodity price instruments are included in revenues with the sale of the related production.

2. PROPERTY, PLANT AND EQUIPMENT

Virtually all of the Company's property, plant and equipment is invested in the acquisition of petroleum and natural gas rights and the exploration for, and development and production of, crude oil and natural gas. All activity is conducted in Western Canada.

December 31	1997	1996
Property, plant and equipment, at cost	\$ 4,748,638	\$ 3,806,616
Accumulated depletion and depreciation	(1,384,278)	(1,066,978)
	<u>\$ 3,364,360</u>	<u>\$ 2,739,638</u>

Estimates of \$594 million for future development costs of proven undeveloped reserves and \$217 million for estimated net realizable value of production equipment and facilities were included in the calculation of 1997 depletion and depreciation expense.

3. SITE RESTORATION ACCRUAL

	1997	1996
Balance, January 1	\$ 17,412	\$ 12,873
Current site restoration provision	15,300	12,100
Current year expenditures	(7,435)	(7,561)
Balance, December 31	<u>\$ 25,277</u>	<u>\$ 17,412</u>

As at December 31, 1997 the estimated future site restoration costs to be accrued over the life of the remaining proven reserves were \$174 million.

4. LONG-TERM DEBT

	Proforma		December 31
December 31	January 1, 1998	1997	1996
Commercial Paper	\$ 200,000	\$ 200,000	\$ 160,000
Bank facilities			
Prime rate advances	2,526	2,526	4,363
Bankers' acceptances	279,259	379,259	249,638
Medium Term Notes	300,000	200,000	—
	\$ 781,785	\$ 781,785	\$ 414,001

On February 3, 1998 the Company issued \$100 million of Medium Term Notes, Series C. The proforma disclosure gives effect to the proceeds received and their initial use.

a) Credit Facilities

The Company's authorized credit facilities, all of which are unsecured and may be drawn in Canadian or U.S. funds, are as follows:

I) COMMERCIAL PAPER

The Company has authorized the issuance of short-term promissory notes in the aggregate principal amount of \$400 million. The promissory notes have a maximum term of 364 days and bear interest at short-term market rates.

The Company has a \$400 million revolving facility with its principal banks which matures January 5, 1999, unless extended, that serves as a back-up facility to the commercial paper program.

II) BANK FACILITIES

The Company's bank loan agreements provide for \$450 million of extendible revolving term facilities and a \$100 million operating demand facility. These facilities bear interest at the banks' prime rates or at money market rates plus a 0.3% stamping fee. Certain of the bankers' acceptances have been swapped to fix interest rates for terms beyond 1998 as follows:

Amount	Fixed Interest Rate	Fixed Term
\$ 50 million	5.30%	February 1999*
\$ 50 million	5.33%	January 2000
\$ 15 million	7.39%	August 2000

* Subject to an option to extend the term to February 2000.

The revolving term facilities mature June 30, 2004 unless extended. These facilities provide for a \$113 million reduction in the principal amount in each of the last four years of the term.

III) MEDIUM TERM NOTES

The Company has authorized a medium term note program in the aggregate principal amount of \$400 million. The notes bear interest at rates determined on the date of issue.

The following have been issued under the program:

Issue	Amount	Interest Rate	Term
Series A	\$100 million	5.90%	February 2002
Series B	\$100 million	6.85%	February 2007
Series C *	\$100 million	5.75%	February 2003

* Issued on February 3, 1998.

b) Interest on Long-Term Debt

Year ended December 31	1997	1996	1995
Interest on long-term debt	\$ 30,653	\$ 35,039	\$ 39,427
Interest on prepayment of US\$150 million Senior Notes	—	13,086	—
Financing expense/other	2,256	10	(602)
	\$ 32,909	\$ 48,135	\$ 38,825

On December 10, 1996 the Company exercised its option to prepay the Senior Notes totalling US \$150 million and incurred an interest penalty of US\$10 million (Cdn.\$13 million).

5. FINANCIAL INSTRUMENTS

Certain financial instruments, used to manage exposures to interest rates and natural gas prices, were outstanding at December 31, 1997.

a) Interest Rates

As at December 31, 1997, if the Company had extinguished the interest rate swap arrangements on certain bankers' acceptances and re-issued the outstanding Medium Term Notes at market rates for the same remaining terms, a cost of \$4.4 million would have been incurred.

b) Natural Gas

As at December 31, 1997, the Company had sold forward 20.3 billion cubic feet of natural gas for delivery at various dates in 1998 at prices averaging US\$2.67 per thousand cubic feet. If these positions had been closed out on that date, a gain of Cdn.\$13 million would have been realized.

6. SHARE CAPITAL**a) Authorized**

The authorized share capital consists of an unlimited number of common shares and an unlimited number of First, Second, Third, and Fourth Preferred Shares.

b) Common Shares Issued

	Number	Consideration
Balance, December 31, 1994	93,708	\$ 831,223
Public share issue	11,000	327,250
Employee stock option plan	1,264	17,246
Share issue expenses, net of deferred income tax of \$6 million	—	(7,415)
Balance, December 31, 1995	105,972	1,168,304
Public share issue	8,000	316,000
Employee stock option plan	1,438	30,681
Share issue expenses, net of deferred income tax of \$6 million	—	(7,275)
Balance, December 31, 1996	115,410	1,507,710
Employee stock option plan	812	16,800
Balance, December 31, 1997	116,222	\$ 1,524,510

c) Common Shares Reserved for Issue

Stock options to acquire common shares are granted to professional employees and directors from time to time at exercise prices equal to the market value of the shares at the date of the grant. Stock options issued and outstanding were as follows:

<i>Year ended December 31</i>	1997	1996	1995
Balance, January 1	7,888	7,520	7,080
Granted	2,647	2,151	1,853
Exercised	(812)	(1,438)	(1,241)
Cancelled	(469)	(345)	(172)
Balance, December 31	9,254	7,888	7,520
Number of employees and directors holding stock options at December 31	152	137	117

The stock options vest over a four-year period from the date of the grant and, if unexercised, expire as follows:

Year of Grant	Year of Expiry	Number of Stock Options	Weighted Average Exercise Prices	Proceeds If Exercised
1991	1999	481	\$ 13.88	\$ 6,674
1992	2000	667	\$ 12.85	8,569
1993	2001	1,220	\$ 21.12	25,772
1994	2002	1,204	\$ 29.70	35,760
1995	2003	1,404	\$ 25.21	35,394
1996	2004	1,765	\$ 34.04	60,079
1997	2000	357	\$ 35.70	12,745
1997	2005	2,156	\$ 46.57	100,412
		9,254	\$ 30.84	\$ 285,405

7. DEFERRED INCOME TAXES

The provision for deferred income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before income taxes. This difference results from the following:

	1997	1996	1995
<i>Year ended December 31</i>	%	%	%
Statutory income tax rate	44.7	44.7	44.5
Effect on income tax rate of:			
Non-deductible Crown royalties	26.7	16.9	25.8
Resource allowance	(34.3)	(26.3)	(37.6)
Non-deductible depletion	0.7	0.5	0.9
Non-deductible capital taxes	2.3	1.2	1.9
Other	1.4	1.1	9.4
Effective income tax rate	41.5	38.1	44.9

As at December 31, 1997, the following deductions were available to claim against future taxable income:

	Amount	Maximum Annual Rate of Claim
Canadian exploration expense	\$ 493,000	100%
Canadian development expense	443,000	30%
Canadian oil and gas property expense	757,000	10%
Undepreciated capital cost	750,000	20 - 30%
	<u>\$ 2,443,000</u>	

8. NET INCOME AND CASH FLOW FROM OPERATIONS PER SHARE

	Basic			Fully Diluted		
	1997	1996	1995	1997	1996	1995
Net income per share	\$ 1.00	\$ 1.66	\$ 0.66	\$ 0.98	\$ 1.61	\$ 0.66
Cash flow from						
operations per share	\$ 4.57	\$ 5.27	\$ 3.43	\$ 4.33	\$ 5.01	\$ 3.30
Weighted average						
number of common						
shares outstanding	115,894	108,651	95,463	125,031	117,040	103,270
Common shares						
outstanding at						
December 31	116,222	115,410	105,972	125,476	123,298	113,492

The fully diluted cash flow per share calculations account for the possible proceeds from the exercise of stock options and the related imputed interest expense reductions of \$12 million, \$13 million and \$13 million calculated at effective interest rates of 4.5%, 6.5% and 8.0% for 1997, 1996 and 1995 respectively. These amounts are tax effected using a 45% tax rate to calculate fully diluted net income per share.

9. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES' GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). These principles, as they pertain to the Company's financial statements, differ from United States' generally accepted accounting principles ("U.S. GAAP") as follows:

- a) In accordance with U.S. GAAP, foreign exchange gains and losses arising on translation of long-term monetary liabilities as at the balance sheet date are included in income currently instead of being deferred and amortized over the term of such long-term liabilities.
- b) In accordance with U.S. GAAP, the liability method of accounting for income taxes is used instead of the deferral method. Under the liability method, current and deferred income taxes are recognized, at currently enacted rates, to reflect the expected future tax consequences arising from the difference between transactions recorded in the financial statements and those in income tax returns.

- c) In accordance with Canadian GAAP, income per share is calculated on a "basic" and on a "fully diluted" basis. Fully diluted income per share incorporates the potential dilutive effect of the stock options outstanding under the stock option plan.

In accordance with U.S. GAAP, income per share is calculated on a "basic" and "diluted" basis. Diluted income per share includes the potential dilutive effect of the outstanding stock options under certain conditions, including a requirement that the option exercise price be below the average market price for the shares. At December 31, 1997, 2.8 million stock options of a total of 9.3 million stock options outstanding were excluded from the calculation of diluted net income per share.

The application of U.S. GAAP would have the following effects on net income as reported:

<i>Year ended December 31</i>	1997	1996	1995
Net income as reported in			
accordance with Canadian GAAP	\$ 115,363	\$ 180,449	\$ 63,099
Adjustments:			
Foreign exchange translation	—	5,630	9,498
Accounting for income taxes	(454)	(970)	(3,547)
Net income in accordance			
with U.S. GAAP	\$ 114,909	\$ 185,109	\$ 69,050
Net income per share in			
accordance with U.S. GAAP			
Basic	\$ 0.99	\$ 1.70	\$ 0.72
Diluted	\$ 0.97	\$ 1.66	\$ 0.71
Net income per share			
in accordance with Canadian GAAP			
Basic	\$ 1.00	\$ 1.66	\$ 0.66
Fully diluted	\$ 0.98	\$ 1.61	\$ 0.66

The application of U.S. GAAP would have the following effects on the balance sheets as reported:

	Cdn. GAAP	Increase (Decrease)	U.S. GAAP
December 31, 1997			
Deferred income taxes	\$ 372,108	\$ (4,144)	\$ 367,964
Retained earnings	\$ 576,455	\$ 4,144	\$ 580,599
December 31, 1996			
Deferred income taxes	\$ 290,408	\$ (4,598)	\$ 285,810
Retained earnings	\$ 461,092	\$ 4,598	\$ 465,690

OIL AND GAS PRODUCING ACTIVITIES *(Unaudited)*

The following disclosures are included in accordance with the United States Financial Accounting Standards Board Statement No. 69, "Disclosures about Oil and Gas Producing Activities".

A. Reserve Quantity Information

Crude oil and natural gas reserve estimates are determined through analysis of geologic and engineering data which appear, with reasonable certainty, to be recoverable at commercial rates in the future from known oil and natural gas reservoirs under existing economic and operating conditions.

Net reserves are determined by deduction of all interests owned by others, including royalties, and are based upon current royalty regulations. The reserves set forth are the Company's net proved reserves based upon estimates determined by independent and Company engineers.

PROVED DEVELOPED AND UNDEVELOPED RESERVES *(net of royalties)*

	Oil* (mmbbls)	Natural Gas (bcf)
December 31, 1994	169	887
Discoveries and extensions	53	311
Purchases	10	23
Production	(17)	(116)
Revisions of prior estimates	8	(25)
December 31, 1995	223	1,080
Discoveries and extensions	43	267
Purchases	17	7
Production	(22)	(124)
Revisions of prior estimates	1	(67)
December 31, 1996	262	1,163
Discoveries and extensions	58	324
Purchases	10	12
Production	(25)	(130)
Revisions of prior estimates	18	124
December 31, 1997	323	1,493
Proved Developed Reserves		
December 31, 1995	113	526
December 31, 1996	140	546
December 31, 1997	179	722

* Crude oil and natural gas liquids

B. Results of Operations (millions)

<i>Year ended December 31</i>	1997	1996	1995
Total sales to customers	\$ 791	\$ 803	\$ 509
Production expenses	(193)	(152)	(116)
Depletion and depreciation	(332)	(280)	(212)
Income taxes	(108)	(142)	(78)
Results of operations	\$ 158	\$ 229	\$ 103

C. Capitalized Costs (millions)

<i>Year ended December 31</i>	1997	1996	1995
Proved oil and gas properties	\$ 4,359	\$ 3,410	\$ 2,565
Unproved oil and gas properties	389	397	336
Accumulated depletion and depreciation	(1,384)	(1,067)	(799)
Net capitalized costs	\$ 3,364	\$ 2,740	\$ 2,102

D. Costs Incurred (millions)

<i>Year ended December 31</i>	1997	1996	1995
Acquisition costs			
Proved properties	\$ 124	\$ 109	\$ 99
Unproved properties	66	107	80
Exploration costs	202	211	203
Development costs	543	470	331
Total costs incurred	\$ 935	\$ 897	\$ 713

E. Standardized Measure of Discounted Future Net Cash Flows and Changes Therein

In calculating the standardized measure of discounted future net cash flows, year-end constant price and cost assumptions were applied to the Company's estimated annual future production from proven reserves to determine future cash inflows. Future development costs are estimated based upon constant price assumptions and assume the continuation of existing economic, operating, and regulatory conditions. Future income taxes are calculated by applying the year-end statutory rate to estimated future pre-tax cash flows after provision for the tax cost of the oil and natural gas properties based upon existing laws and regulations. The discount was computed by application of a 10% discount factor to the estimated future net cash flows.

Management believes that this information does not represent the fair market value of the oil and natural gas reserves or the present value of estimated cash flows since no economic value is attributed to potential reserves, the use of a ten percent discount rate is arbitrary, and prices change constantly from year-end levels.

PRESENT VALUE OF ESTIMATED FUTURE NET CASH FLOWS (millions)

December 31	1997	1996	1995
Future cash inflows	\$ 8,822	\$ 10,993	\$ 6,217
Future production and development costs	(3,603)	(2,729)	(2,250)
Future income taxes	(1,361)	(2,918)	(1,161)
Future net cash flows	3,858	5,346	2,806
10% discount factor	(1,148)	(1,642)	(747)
Standardized measure	\$ 2,710	\$ 3,704	\$ 2,059

CHANGES IN THE STANDARDIZED MEASURE
OF DISCOUNTED FUTURE NET CASH FLOWS (millions)

	1997	1996	1995
Standardized measure, beginning of year	\$ 3,704	\$ 2,059	\$ 1,560
Changes result from:			
Sales of production, net of royalties and production costs	(598)	(651)	(393)
Net change in prices, net of royalties and production costs	(2,647)	2,064	99
Extensions, discoveries and improved recovery, net of related future costs	577	951	527
Change in estimated future development costs	(4)	(1)	2
Development costs incurred during the year	288	293	167
Revisions in quantity estimates	249	(134)	28
Accretion of discount	529	262	262
Net change in income tax	1,157	(1,031)	(98)
Purchase of reserves in place	100	288	110
Changes in timing and other	(645)	(396)	(205)
Standardized measure, end of year	\$ 2,710	\$ 3,704	\$ 2,059

Ten Year Summary

Year ended December 31	1997	1996	1995	1994
FINANCIAL (millions except per share amounts)				
Gross revenues	\$ 948	\$ 953	\$ 603	\$ 522
Cash flow	\$ 530	\$ 573	\$ 328	\$ 296
Per share (fully diluted)	\$ 4.33	\$ 5.01	\$ 3.30	\$ 3.15
Net income	\$ 115	\$ 180	\$ 63	\$ 63
Per share (fully diluted)	\$ 0.98	\$ 1.61	\$ 0.66	\$ 0.70
Capital expenditures	\$ 949	\$ 913	\$ 727	\$ 761
Total assets	\$ 3,445	\$ 2,839	\$ 2,214	\$ 1,655
Long-term debt	\$ 782	\$ 414	\$ 430	\$ 359
Shareholders' equity	\$ 2,101	\$ 1,969	\$ 1,449	\$ 1,049
Number of common shares (fully diluted)	125.5	123.3	113.5	100.8
Market value per share – High	\$ 50.00	\$ 51.00	\$ 34.25	\$ 32.00
– Low	\$ 28.15	\$ 32.00	\$ 23.25	\$ 26.50
– Close	\$ 29.50	\$ 46.65	\$ 34.00	\$ 27.13
OPERATING				
Production				
Oil (thousands of barrels)	30,067	26,323	20,840	15,687
Per day (barrels)	82,375	71,921	57,097	42,979
Average selling price per barrel	\$ 20.28	\$ 24.69	\$ 20.38	\$ 17.55
Natural gas (billion cubic feet)	153	139	131	132
Per day (million cubic feet)	420	380	358	362
Average selling price per mcf	\$ 2.21	\$ 2.18	\$ 1.36	\$ 1.87
Reserves (proven and probable)				
Oil (millions of barrels)	486	405	322	247
Natural gas (billion cubic feet)	2,041	1,851	1,597	1,325
Net wells drilled – Oil	788	690	585	424
– Natural gas	385	399	269	320
– Dry	472	551	534	474
	1,645	1,640	1,388	1,218
Net undeveloped land holdings				
(thousands of acres)	10,759	10,563	9,096	6,066
Number of employees – Head office	373	320	290	261
– Field	341	279	227	198

1993	1992	1991	1990	1989	1988	10 Year Compound Growth
\$ 382	\$ 266	\$ 206	\$ 180	\$ 131	\$ 86	33%
\$ 214	\$ 137	\$ 106	\$ 90	\$ 68	\$ 40	32%
\$ 2.54	\$ 1.84	\$ 1.60	\$ 1.44	\$ 1.11	\$ 0.71	21%
\$ 49	\$ 25	\$ 21	\$ 23	\$ 18	\$ 7	28%
\$ 0.60	\$ 0.35	\$ 0.32	\$ 0.38	\$ 0.31	\$ 0.14	15%
\$ 400	\$ 263	\$ 225	\$ 131	\$ 80	\$ 129	27%
\$ 1,049	\$ 751	\$ 556	\$ 413	\$ 329	\$ 289	33%
\$ 168	\$ 193	\$ 170	\$ 124	\$ 84	\$ 76	41%
\$ 714	\$ 451	\$ 311	\$ 232	\$ 202	\$ 180	31%
89.9	80.2	70.4	65.6	64.4	62.8	8%
\$ 36.00	\$ 19.75	\$ 17.13	\$ 16.50	\$ 12.88	\$ 8.94	20%
\$ 18.25	\$ 12.25	\$ 11.88	\$ 12.00	\$ 6.32	\$ 5.25	25%
\$ 28.25	\$ 18.63	\$ 13.13	\$ 15.75	\$ 12.88	\$ 6.44	17%

12,441	9,479	6,819	6,068	4,987	4,125	32%
34,086	25,900	18,683	16,625	13,663	11,271	
\$ 16.00	\$ 16.85	\$ 15.80	\$ 21.01	\$ 17.26	\$ 13.85	—%
110	78	64	52	35	23	28%
300	212	176	143	96	61	
\$ 1.67	\$ 1.37	\$ 1.28	\$ 1.48	\$ 1.44	\$ 1.32	5%
165	119	77	54	44	32	35%
1,057	961	732	629	527	411	22%
462	276	198	116	100	112	22%
188	154	132	132	99	94	16%
333	261	187	109	89	70	26%
983	691	517	357	288	276	21%
2,892	2,159	1,908	1,575	1,267	996	32%
210	169	163	142	128	99	16%
161	125	107	92	74	48	25%

Corporate Directory

DIRECTORS

Ronald G. Greene (Chairman)
Independent Businessman
Calgary, Alberta

Jonathan H. Deitcher
Vice President and Director
RBC Dominion Securities Inc.
Montreal, Quebec

Brent D. Kinney
International Petroleum
Lawyer, Clyde & Co.
Dubai, UAE

Wilmot L. Matthews
Independent Businessman
Toronto, Ontario

J. Dean Muncaster
Chairman
Spill Tech Industries Inc.
Collingwood, Ontario

Daryl K. Seaman
Independent Businessman
Calgary, Alberta

Sheldon B. Steeves
Executive Vice President and
Chief Operating Officer
Renaissance Energy Ltd.
Calgary, Alberta

Clayton H. Woitas
President and Chief
Executive Officer
Renaissance Energy Ltd.
Calgary, Alberta

OFFICERS

Clayton H. Woitas, P. Eng.
President and Chief
Executive Officer

Sheldon B. Steeves, P. Geol.
Executive Vice President
and Chief Operating Officer

John A. Thomson, C.A.
Senior Vice President
Chief Financial Officer and
Secretary

John A. Curkan
Vice President Marketing

Derek W. Evans, P. Eng.
Vice President Exploitation

Stephen R. Horner, C.A.
Vice President Corporate
Services and Assistant
Secretary

Jeffrey S. Lebbert
Vice President Land and
Contracts

Richard P. Marshall

Vice President Production

Douglas A. Proll, C.A.
Vice President Finance and
Treasurer

Terence L. Sharkey
Vice President Drilling and
Completions

Roy L. Smitshoek, P. Eng.
Vice President Corporate
Development

Boyd B. Stuart
Vice President Administration
and Information Systems

Daniel C. Topolinsky, P. Geol.
Vice President Exploration

Members of Board of Directors' Committees

Messrs. Matthews (Chairman),
Deitcher and Kinney are members
of the Audit Committee.

Messrs. Greene (Chairman),
Matthews, Muncaster and Woitas
are members of the Compensation
Committee.

Messrs. Muncaster (Chairman),
Seaman and Woitas are members of
the Safety and Environment
Committee.

AUDITORS

Arthur Andersen & Co.

BANKERS

The Toronto-Dominion Bank

Bank of Montreal

Canadian Imperial Bank of Commerce

EVALUATION ENGINEERS

Sproule Associates Limited

LEGAL COUNSEL

Burnet Duckworth & Palmer

Blain & Company

STOCK EXCHANGES

Toronto Stock Exchange

Montreal Exchange

Trading Symbol RES

TRANSFER AGENT & REGISTRAR

Montreal Trust Company of Canada

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Calgary, Alberta

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Canada, T2P 3L8

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Facsimile: (403) 750-1368

SELECTED ABBREVIATIONS

bbls barrels

mbls thousand barrels

mmbls million barrels

bopd barrels of oil per day

mbl/d thousand barrels per day

mcf thousand cubic feet

mmcf million cubic feet

bcf billion cubic feet

mmcf/d million cubic feet per day

boe barrels of oil equivalent

mboe thousand barrels of oil equivalent

mmboe million barrels of oil equivalent

mmcfe millions of cubic feet equivalent

bcfe billions of cubic feet equivalent

API° American Petroleum Institute
degrees of specific gravity

Natural gas is equated to oil on the basis of
10 mcf per barrel of oil

Renaissance Energy Ltd.

1997 ANNUAL REPORT

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